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Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

Contents

Operations of National Banks

As 1985 drew to a close, the nation was experiencing its third full year of economic expansion. In spite of the continued upswing in the business cycle, the gross national product's growth rate of 2.4 percent in 1985 was disappointing and considerably less than its 4.7 percent growth in 1984. Many experts cited the strong international value of the dollar as a primary cause of the curtailed growth. The robust dollar led to difficulties for exporting industries and for industries that produce goods that compete with imports.

A low rate of inflation, combined with a sluggish economy, prompted the Federal Reserve Board to push down interest rates during 1985 with the hope of prolonging the economic recovery. One result of the Federal Reserve actions during the year was a continued decline in the prime rate, the rate of interest banks charge their most creditworthy customers. By June of 1985 the prime rate had tumbled to 9.50 percent compared to the 13.00 percent 12 months earlier. The 9.50 percent rate held steady through the remaining 6 months of the year.

Because the economy continued to grow in 1985 and interest rates continued to fall, the national banking system as a whole remained sound. Declining interest rates made it easier for borrowers to pay their bankers and enabled most banks to earn more from their loans. In general, banks do better in periods of declining interest rates because they do not reduce the rates they charge borrowers as quickly as their own cost of funds declines.

Most of the problems that were evident in national banks during 1985 tended to be concentrated among those banks that were heavy lenders to industries that had not benefited from the 3-year old economic recovery. Four specific areas put increased pressure on national banks: agriculture, energy, real estate construction, and international loans.

Persisting weakness in the agricultural sector continued to affect the earnings and capital of many farm banks. Farm areas of the country are suffering from the worst depression since the 1930s and there are no signs that it is easing. Record harvests, weak export demand, and heavy debt burdens have combined to push many farmers to the brink of bankruptcy.

Certain banks in the Southwest with large amounts of oil and gas loans faced major earnings challenges in 1985. The downward slide in oil prices affected the income and loan repayment ability of many energy borrowers. Another consequence was that as oil prices declined so did the value of energy-related loan collateral held by banks. Energy banks under the greatest pressure were those with large extensions of credit to petroleum refiners and to oil service companies.

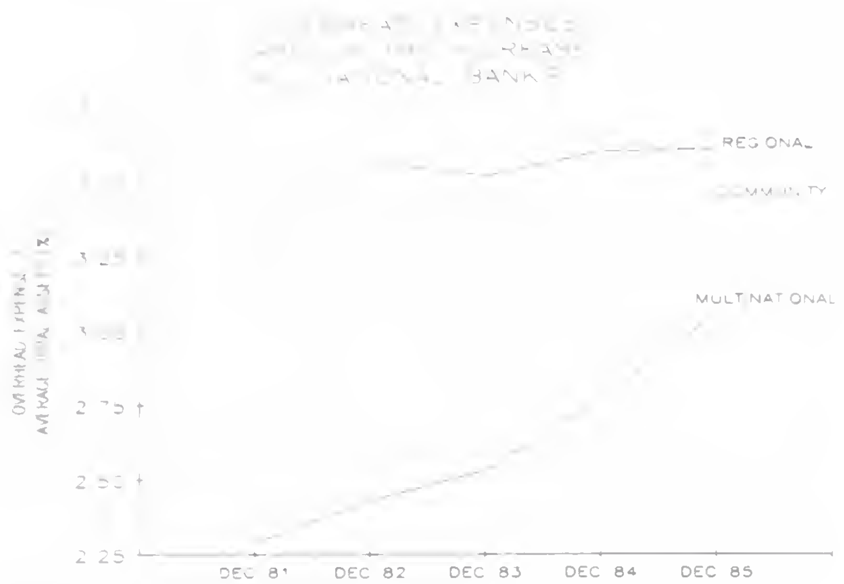
During the year, a glut of office space in a number of major cities drove down rents and boosted vacancies, making it difficult or impossible for a number of developers to repay construction loans. With the decrease in the cash flow of many projects, the market value of the buildings providing the collateral for those loans also declined.

During the 1970s, U.S. banks' international lending increased for several reasons, including the need to recycle OPEC surpluses and the limited opportunities to expand domestically. In 1982, many of the Third World countries that owed money to the U.S. banks encountered debt-service problems due, in part, to the prolonged global recession and the failure of their governments to undertake appropriate domestic economic policies. Recent lower inflation rates and interest rates, additional lending by the International Monetary Fund, and increased capital in the multinational banks have helped mitigate many of the problems associated with Third World debt.

Although a number of national banks had exposures to weak sectors of the economy, during 1985 they faced a more general problem in the form of increased competition from nonbank providers of financial services. Earnings in commercial banks have come under additional pressure as nonbank competitors capture banks' most profitable customers. These less regulated rivals such as insurance companies, finance companies, securities firms, and thrift institutions are offering products such as IRAs, credit cards, home mortgages, car loans, and multipurpose investment transaction accounts.

On December 31, 1985 there were 4,958 active national banks. Twelve of these were multinational national banks — the largest national banks with worldwide operations. Another 191 were regional national banks with total assets in excess of $1 billion. The remaining 4,755 national banks were the community banks, smaller banks with total assets of less than $1 billion.

Net income for 1985 for all national banks was $10.0 billion, an increase of 19.9 percent over 1984's net earnings. The positive impact of lower interest rates and profits from the sale of investment securities more than offset the negative effect of steadily increasing loan losses.



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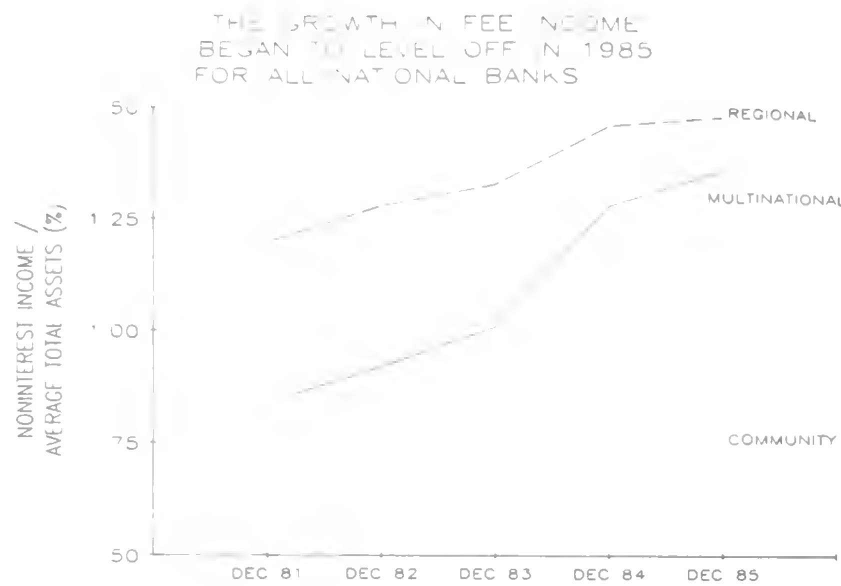

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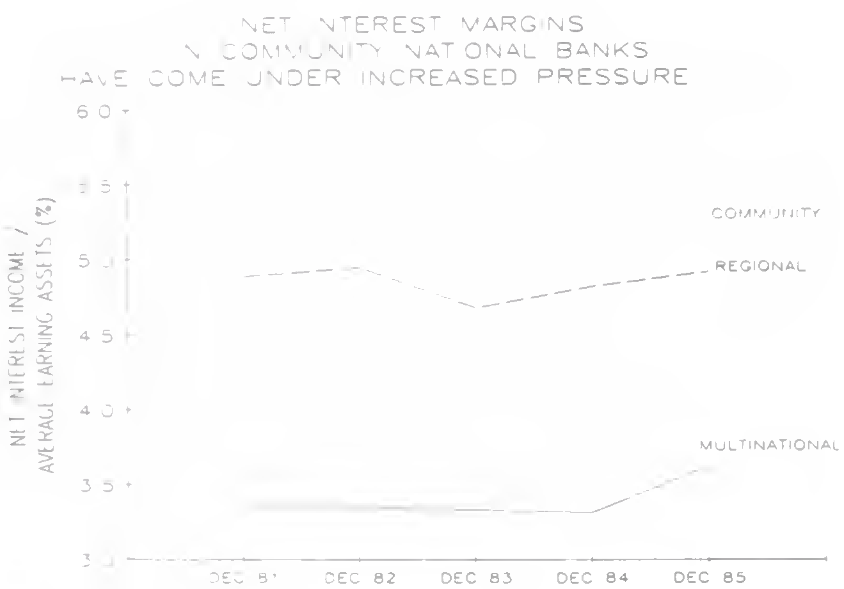

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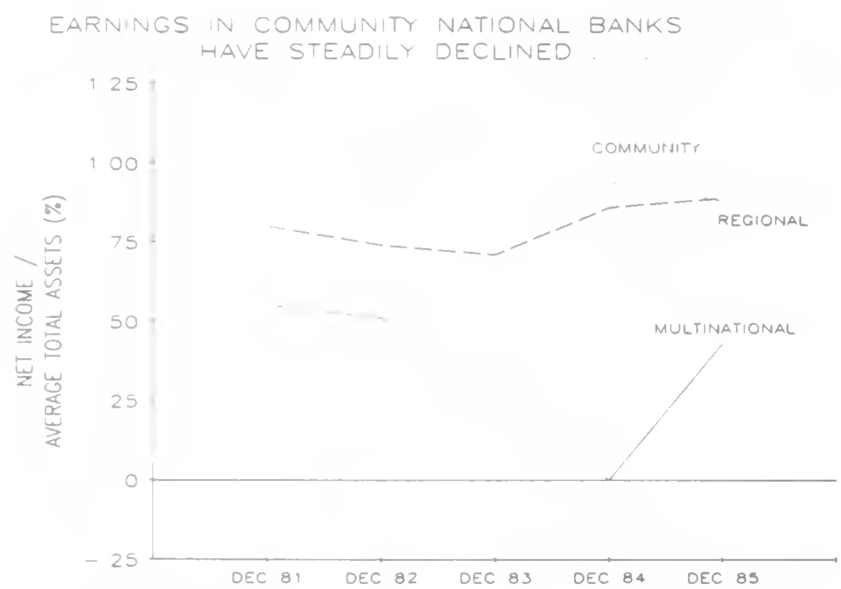

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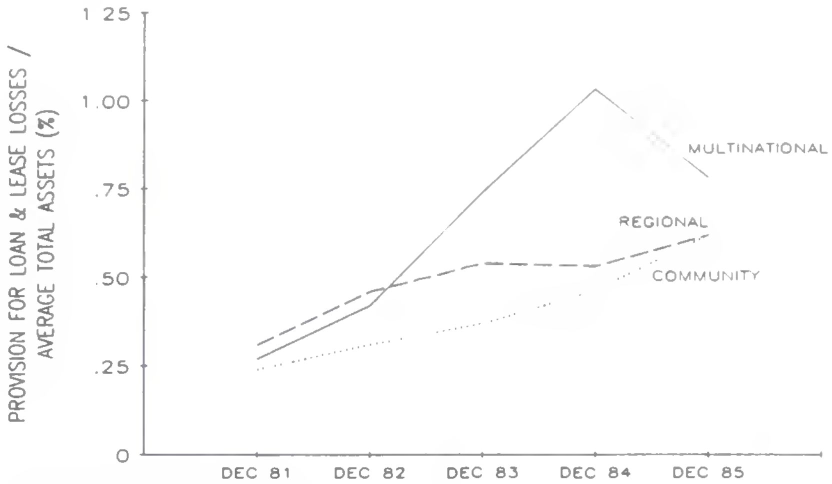
During the first half of 1985, as interest rates continued to decline, many national banks sold their higher yielding investment securities for substantial profit. The profits from the sale of these securities accounted for over one-third of the increase in pre-tax net operating income for the year.

Two phenomena caused the 1985 gain in net interest earnings in national banks. During the year, the volume of earning assets in national banks increased faster than the volume of noninterest earning assets did. Growth in loans and purchases during the third and fourth quarters of municipal securities with maturities of 1 year or more accounted for the bulk of the earning assets expansion. A second reason was that the downward slide in interest rates permitted national banks to improve their net interest margin. Banks increased their spread by reducing the rate of interest charged on earning assets such as loans more slowly than they reduced the interest rate they paid on deposits and other liabilities. For the 12 months ending December 31, total interest income for national banks declined merely 0.3 percent, while total interest expense fell 7.2 percent.

The ratio of net interest earnings to average earning assets in multinational banks increased 31 basis points to 3.62 percent from yearend 1984 to yearend 1985. The net interest margin for regional national banks was 4.92 percent as of December 1985 — a gain of 10 basis points from the prior year. The spread expanded 4 basis points to 5.27 percent at community banks.

During 1985, national banks added to their reserves for loan losses in reaction to the growing volume of nonperforming loans and of loan and lease net charge-offs. As a result, loan loss prevention expense for national banks in 1985 jumped 23 percent from 1 year before. Regional and community banks accounted for almost all the increase. In regional national banks, 1985 provision expense surged 44.4 percent over 1984's figure. This was because many of the largest regional banks are located in areas experiencing troubles with energy and real estate borrowers. For community banks, the increase was almost as large — 41.6 percent. Problems in the agricultural sector affected many of these smaller national banks. Because of declining loan charge-offs and a reduction in the volume of nonperforming loans, provision expense

PROVISION EXPENSE INCREASED DRAMATICALLY
IN COMMUNITY NATIONAL BANKS
DURING 1985 . . .



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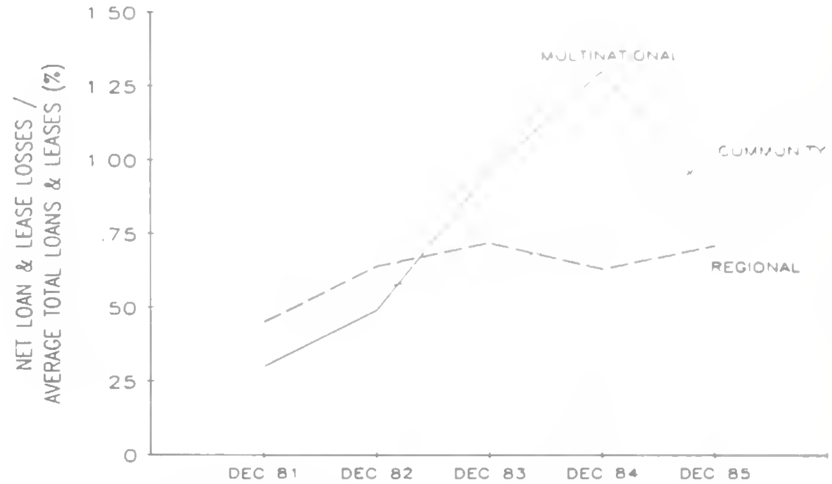
NET LOAN LOSSES
IN COMMUNITY NATIONAL BANKS
ESCALATED IN 1985



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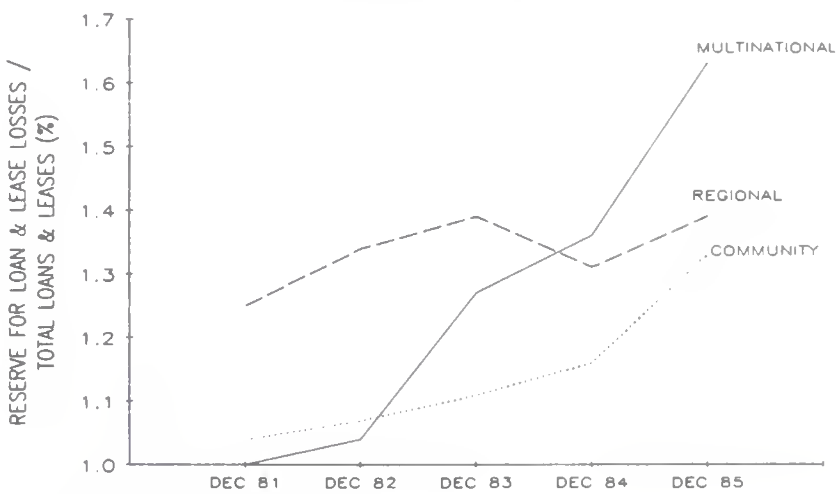
LOAN LOSS RESERVE BALANCES
WERE INCREASED DURING 1985
BY ALL NATIONAL BANK GROUPS . . .



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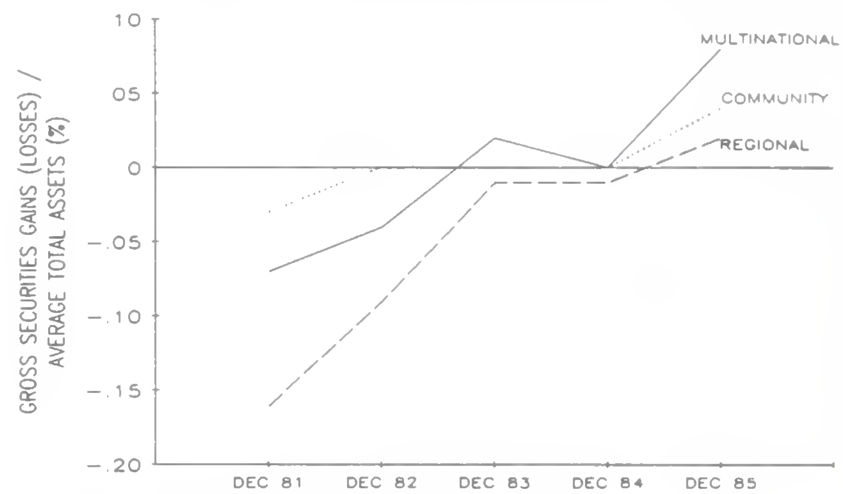
PROFITS FROM THE SALE OF INVESTMENT SECURITIES
DURING 1985 CONTRIBUTED SIGNIFICANTLY TO THE
EARNINGS OF ALL THREE NATIONAL BANK GROUPS . .



SOURCE: SUPERVISORY INFORMATION DIV

in the multinationals increased a miniscule 0.6 percent.

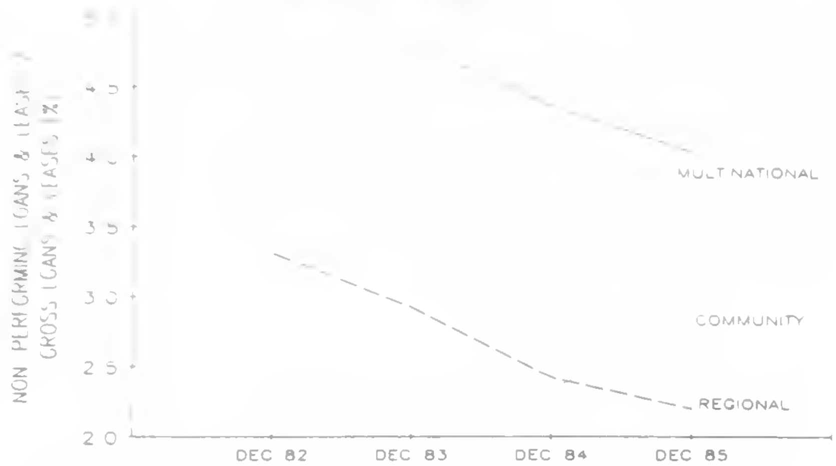
National bank profits rose in 1985 because noninterest income rose faster than noninterest expense during the year — 14.5 percent versus 12.6 percent. Although this trend applied for the largest national banks, community banks actually experienced the reverse. Salaries, occupancy expenses and other overhead costs accelerated more rapidly than did income from fees and service charges in these small national banks.

The return on average assets (ROA) ratio, an important yardstick for measuring earnings, improved only at the largest national banks from 1984 to 1985. In the community national banks, the ratio continued to decline. The community banks, beset by problems associated with the farm economy and escalating overhead costs, saw their average ROA drop 5 basis points to 0.89 percent. For multinational banks, the mean ratio of net income to average total assets surged from 0.00 percent as of December 1984 to 0.43 percent as of December 1985. This was directly attributable to the fact that two multinational banks which had registered large losses for 1984 made profits in 1985, and because several multinational banks had reduced their provision expense from the year before. The increase in ROA for regional banks was 3 basis points to 0.89 percent. Widened margins and profits from the sale of securities boosted the earnings of these national banks.

Consolidated total assets for the national bank system were $1.634 trillion on December 31, 1985. This reflected a growth rate of 9.0 percent for the 12-month period.

Gross loans and leases increased 7.9 percent during 1985 and by December 31 represented 61.8 percent of national bank total assets. Loan growth was most pronounced in the regional banks. These banks saw gross loans and leases expand by 18.4 percent over the 12-month period. The increase was centered in loans to consumers and businesses, and loans secured by real estate. For community national banks, loans — primarily real estate and consumer loans — increased by 4.4 percent. Loan growth for the year was negligible in the multinational banks, 0.1 percent. Increases in consumer and real estate loans were offset by declines in loans to businesses and loans booked in foreign offices.

THE VOLUME OF NONPERFORMING LOANS & LEASES INCREASED SIGNIFICANTLY IN THE COMMUNITY NATIONAL BANKS DURING 1985



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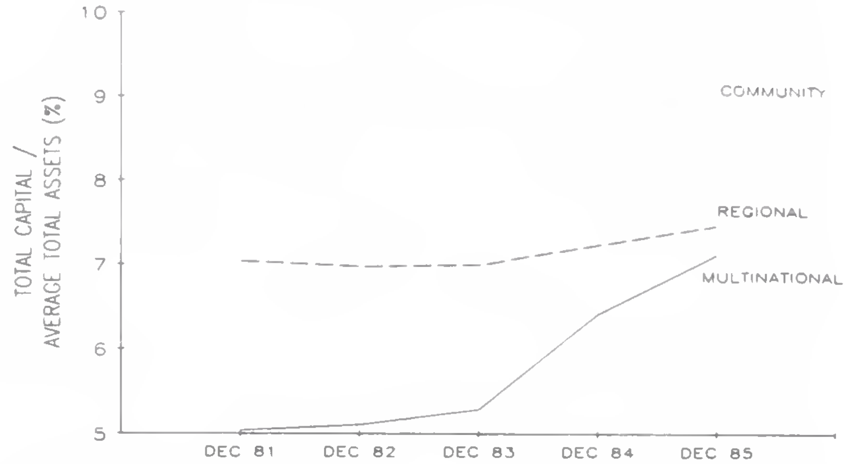
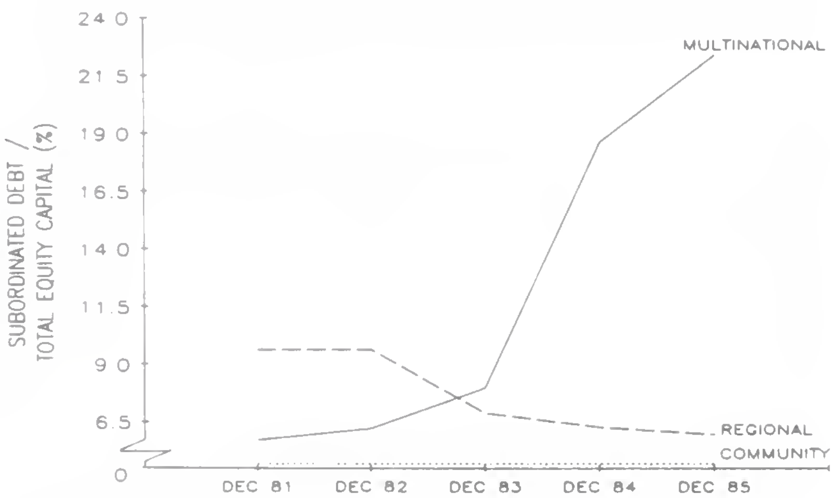
TOTAL CAPITAL IN THE MULTINATIONAL NATIONAL BANKS HAS IMPROVED MARKEDLY SINCE 1983



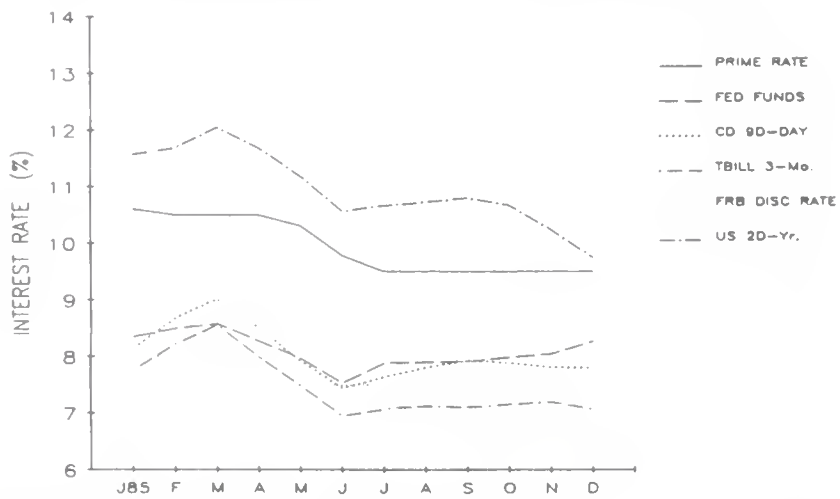
SOURCE SUPERVISORY INFORMATION DIV

MULTINATIONAL NATIONAL BANKS HAVE PLACED INCREASED RELIANCE ON SUBORDINATED DEBT TO AUGMENT CAPITAL . . .



SOURCE: SUPERVISORY INFORMATION

KEY INTEREST RATES EXHIBITED A DOWNWARD TREND DURING MOST OF 1985 . . .



SOURCE SUPERVISORY RESEARCH DIV RATES ARE MONTHLY AVERAGES

The investment accounts of national banks expanded by 16.2 percent during the year, and equalled 14.0 percent of national bank total assets at yearend. Purchases of state, county and municipal securities (SCMs) with maturities of more than 1 year accounted for almost three-fourths of the increase. The new acquisitions occurred mostly in the final 6 months of the year and were made, in large part, to replace those securities sold for substantial gains in the first half of 1985.

Ownership of SCM issues increased 37.5 percent in 1985. Ownership of government securities increased a modest 3.2 percent. Regional banks were the most aggressive in the purchase of securities during the year. These larger banks increased their SCM holdings by 66.1 percent during the 12 month period. The regional banks also accounted for the majority of the growth in U.S. government holdings by national banks.

On December 31, 1985 total consolidated deposits in national banks were $1.242 trillion, an increase of 7.9 percent from 1 year earlier. Deposits with an unregulated interest rate continued to account for the lion's share of the gain.

Net loan and lease losses in national banks climbed 15.0 percent from December 1984 to December 1985. The troubles besieging the nation's farmers had a substantial adverse impact on the community national banks. Net charge-offs accelerated dramatically in these smaller banks — 48.8 percent. As the problems with real estate and energy borrowers intensified so did net loan losses in the regional banks. For this group, net charge-offs were 36.5 percent greater than 1 year earlier. Of the three bank groups, the multinational banks were the only ones to witness a decline in net loan losses, 10.8 percent.

As they had in the past, in 1985 national banks replenished their loan loss reserves in an amount sufficient to both cover current charge-offs and to bolster the cushion maintained for future loan and lease losses. In 1985, national banks increased loan loss reserves by $1.31 for every $1.00 of net loan losses.

Between December 31, 1984 and December 31, 1985 nonperforming loans and leases in national banks decreased 1.58 percent. While the trend for the system as a whole was positive, the volume of loans and leases which were 90 days or more past due, renegotiated or

in nonaccrual status jumped dramatically in community banks. These smaller banks saw their ratio of nonperforming loans and leases to gross loans and leases increase 47 basis points to 2.81 percent from yearend 1984 to yearend 1985. The ratio for regional banks declined 22 basis points to 2.20 percent. For multinational banks, the decline was 33 basis points to 4.02 percent.

Spurred in part by regulatory pressure, national banks continued to seek ways to augment their capital accounts during 1985. The multinational and regional banks continued to find subordinated debt an expeditious method to achieve this goal. Existing marketplace recognition allowed these institutions to sell subordinated debt and place it in the hands of investors with relative ease. Issuing subordinated debt also permitted them to bolster capital without diluting shareholders' equity and provided certain tax advantages as well. During the 12 months of 1985, subordinated debt in national banks increased 41.1 percent and equalled $8.3 billion at yearend. Multinational and regional banks accounted for 94 percent to the total dollar amount outstanding at yearend.

At the close of 1985, total capital in the national bank system was $119.1 billion, an increase of 12.7 percent over 1984's figure. In multinational banks, the ratio of total capital to average total assets surged 70 basis points over the 12-month period to 7.12 percent. The ratio for regional banks stood at 7.47 percent on December 1985, a 1-year increase of 23 basis points. With a yearend 1985 ratio up 8 basis points to 9.03 percent, community banks continued to exhibit the highest capital ratio of the three bank groups.

Banks in the multinational and regional groups retained a greater portion of their earnings in 1985 than they had in 1984. The result for both these groups was a drop in the ratio of cash dividends paid to net income. Multinational banks experienced a drastic drop in this ratio, from 61.17 percent to 34.41 percent. In regional banks the ratio declined 431 basis points to 38.48 percent. Although earnings were down 10.0 percent from 1 year earlier, community banks increased the amount of cash dividends paid during 1985 by 8.1 percent. The result was a jump in the dividend payout ratio for this bank group of 434 basis points to 47.81 percent from December 31, 1984 to December 31, 1985.

On December 31, 1985 there were 1,000 national banks receiving special supervision due to financial, operating or compliance weaknesses. This was an 8 percent increase from September 30, 1985 and a 29 percent increase from December 31, 1984.

In spite of the pressures encountered during 1985, the condition of the national banking system remains sound. The lingering weaknesses present in the agricultural, energy and real estate sectors undoubtedly will continue to place pressure on the earnings and capital of certain banks. Nonetheless, most of those banks impacted by these sectorial problems have shown remarkable resiliency, and there is no reason to doubt that well-managed banks possess the ability to work through any problem that may exist.

The Office of the Comptroller of the Currency has recently implemented several regulatory changes that will ease some of the difficulties being experienced by banks with exposure to weakened sectors of the economy. Existing accounting standards, in conjunction with recent changes in federal reporting requirements, will permit national banks to restructure certain loans. This will make it possible for affected borrowers to repay bank debts even when a partial write-down of a loan may be involved. The Office also implemented capital forbearance for well-managed banks with farm loans and oil and gas loans equal to at least 25 percent of their total loans and leases.

A more general problem facing banks today comes in the form of increasing competition from less-regulated providers of financial services. The long-run stability of our banking system hinges on banks having the flexibility to adapt to changes in their marketplace. Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable commercial banks to offer a broad menu of products and services such as many of their nonbank competitors now offer. To bestow these powers on commercial banks will require the modernization of existing banking laws.

Woodrow W. Reagan
National Bank Examiner
Supervisory Information Division

Litigation Update

On May 2, 1986, the United States Court of Appeals for the Second Circuit upheld a decision by the U.S. District Court for the District of Connecticut which had decided the third in a series of cases concerning the validity of OCC approvals of IRA collective investment trusts established by national banks. The Connecticut court, as the U.S. District Court for the District of Columbia had previously, determined that the establishment and operation of such collective trusts is a proper banking activity, not forbidden by the Glass-Steagall Act. The U.S. District Court for the Northern District of California reached a contrary result. The District of Columbia and California cases have also been appealed, but no decisions have yet been rendered. A fourth case on the same issue is pending in the U.S. District Court for the Western District of North Carolina.

On March 21, 1986, the United States Court of Appeals for the Third Circuit dismissed a petititon from a national bank that had sought to delay an enforcement hearing. The court's action affirms the right of the OCC to conduct enforcement hearings in a timely fashion. During a pre-hearing conference, the bank moved to compel disclosures of the sanctions that the OCC would recommend be imposed on the bank. Bank's counsel wanted these recommendations to become the outer limits of the severity of the sanctions that the OCC could impose on the bank. The Administrative Law Judge denied the bank's motion but delayed commencement of the hearing in order to afford the bank an opportunity to appeal to the Acting Comptroller who subsequently also denied the bank's motion in an interlocutory decision. The Administrative Law Judge further delayed the hearing while the bank sought review of the Acting Comptroller's interlocutory decision in both the U.S. District Court and in the Third Circuit. The U.S. District Court for the District of New Jersey dismissed the bank's petition last December for lack of jurisdiction. The Third Circuit concluded that it lacked jurisdiction to review the bank's petition because of the plain language of 12 U.S.C. § 1818(h) and (i). The court observed that to allow review of such petitions "would disrupt the swift completion of the administrative proceedings that is essential to protect depositors against their banks' unacceptable practices."

The OCC settled several administrative actions involving the Calhoun First National Bank, T. Bertram Lance and certain other directors. The actions alleged that Mr. Lance had engaged in check kiting, obtained nominee loans from the Bank, and received approximately $17,000 owed by a credit life insurance company to the Bank. Mr. Lance has consented to an order that prohibits him from participating in the affairs of any federally insured bank and has agreed to pay $50,000 civil money penalty. The Bank has stipulated to an order that, among other things, restricts Mr. Lance's checking and borrowing relationship with the Bank and requires the Bank to change credit life insurance carriers. Certain members of the board of directors have agreed to pay a civil money penalty of $32,000. The OCC also settled, in part, a federal securities enforcement action brought against the Bank and Mr. Lance. The Bank has agreed to a district court order that requires it to correct past securities disclosure filings and prohibits further violations. The OCC and Mr. Lance have not reached a settlement agreement on this case. Mr. Lance's motions to dismiss this action were recently denied. The Bank and Mr. Lance also have agreed to dismiss various lawsuits brought against the OCC in Rome, Georgia.

Eugene M. Katz
Director
Litigation Division

Speeches and Congressional Testimony

Remarks by Robert L. Clarke, Comptroller of the Currency, before Women in Housing and Finance, Washington, D.C., January 28, 1986

After only eight weeks on the job as Comptroller of the Currency, it is still very much the case that many things I do I am doing for the first time. For better or worse, this audience is being subjected to my first formal speech as Comptroller.

As you might suspect by now, I find that I know a little bit about an awful lot. I have been briefed on everything from international debt to agriculture, energy loans to management information systems, office automation to enforcement actions, plus the condition of the banking system, personnel issues, disclosure, risk-based capital — everything including where the free coffee is. And today, about the only thing I can tell you with great assurance is that you have to get to the coffee before 9:30 because after that it's all gone.

As I was thinking of something to say today, it occurred to me that you might be interested in my thoughts and impressions as a new regulator. Then, I'll be pleased to try to answer any questions you have.

As most of you know, in my "former life," as I like to refer to my previous professional practice, I practiced law for 18 years during most of which I represented banks and other financial institutions — principally in connection with regulatory matters. I had the advantage of having met members of the OCC staff in previous years, on the other side of the negotiating table. So it was really no surprise to me to find that OCC and FDIC employees are well-trained, dedicated professionals who can and do take pride in their work.

Many of these men and women could be paid more in private industry, but because they enjoy what they do and believe it makes a difference — and it really does — they continue to work very hard and put in long hours of service to their agencies. I am proud to be associated with these people and I look forward to working with them in the future.

My second set of impressions has to do with the OCC's relationship to the other federal bank regulators. As I'm sure you're aware, the existing structure of federal bank regulation is not, at least organizationally, a model of logic and consistency — it arose more as a result of just happening than from a carefully sculpted plan. Yet the fact remains that, in general, the system works, in spite of its potential for duplication and conflict. It does not always work in the most efficient and economical or coordinated manner, but it does work.

The system works because of the people who run it. I have been terrifically impressed with the cooperation and willingness to work with each other that all the agencies exhibit. You probably know that Paul Volcker, Bill Seidman, George Gould, Chuck Sethness, Ed Gray and I get together every few weeks at breakfast to discuss what's been going on in our respective agencies. These sessions have been invaluable to me, as a newcomer to Washington, in gaining the historical perspective and thought processes that are related to the various policy initiatives.

This cooperation cannot be institutionalized, but must come from a genuine desire for cooperation and coordination. There is tangible evidence of the results of that cooperation. As you know, the FDIC has postponed the effective date of its disclosure regulation in the hope that both agencies can agree on a rule that is consistent. And earlier this month, the Fed, the FDIC and the OCC jointly announced our intention to propose for comment similar standards for an approach to risk-based capital requirements. This willingness to work with the other agencies will go a long way toward making all our jobs easier and the system more rational.

My third set of impressions has to do with the condition of the banking industry. As with the reported death of Mark Twain, "Reports of the death or terminal illness of the banking industry have been greatly exaggerated."

This is not to say that the banking industry has not had or does not continue to have some problems. Between economic declines in the energy industry and agriculture and back-to-back recessions, banking has gone through some rough times these past 2 years. But I think it's important to put banking problems into perspective.

According to Dun and Bradstreet, the average business failure rate for all sectors of the economy in 1984 was 110 per 10,000, or slightly more than 1 percent. Compare that to banking's failure rate: 53 failures per 10,000 in 1984, or ½ of 1 percent, and an estimated 81 failures per 10,000 in 1985. In both years, banking had the lowest failure rate of all sectors, including agriculture, construction, manufacturing, transportation, wholesale and retail, and service businesses.

I do not mention these figures to encourage complacency among bankers or regulators. The financial services industry — banking in particular — has some serious problems that need to be addressed in the next few

years. But I do think it's important to keep those problems in perspective, if for no other reason than maintaining public confidence in the banking industry. Any diminishment in that confidence is a problem that I'm sure none of us wants to confront.

The public needs to be reminded that banking is a business, too, and that economic difficulties in some segments of the industry do not signal widespread weakness. An overemphasis of bank problems can destroy public confidence in the industry just as surely as can a failure.

Finally, I have been impressed by the willingness of the banking industry to come up with ideas and suggestions for dealing with the industry's more intractable problems. In the past 8 weeks, I have heard many concrete suggestions on the major issues we face today, including disclosure, assistance for farm banks, and risk-based capital. Far from simply trying to stop all change, bankers have made constructive comments on our proposals and have also suggested alternative solutions. We actively solicit their comments and ideas and hope that working together we can create a better system of bank regulation.

Those are my impressions to date. It might be interesting to check back in 6 months to see whether I still hold the same views. I think I will. I have a lot of faith in first impressions, particularly when they are favorable.

Statement of Robert L. Clarke, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, Washington, D.C., March 4, 1986

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to appear before you as the Committee is considering important issues related to federal deposit insurance. As the primary supervisor of the national banking system, I and my colleagues at the Office of the Comptroller of the Currency are concerned, as I know you are, about the banking industry's long-term health. Federal deposit insurance must be discussed, it seems to me, within the context of the vitality of the industry it insures. Although current problems in the banking industry have been highlighted by severe short-term pressures on a significant segment of the industry, they can, in my judgment, be solved only by fundamental changes that will allow innovation and restructuring to meet the demands of today's marketplace.

How we deal with the short-term problems in banking, particularly the record high level of troubled banks and bank failures, is critical to maintaining public confidence in the banking system. Some changes could be made to our laws and regulations that would address those difficulties. I can also assure you that we are making every effort to analyze our examination procedures and standards to make sure that the resources now available to us are being utilized in an efficient and effective manner. In my statement to this Committee next week, I intend to discuss some proposals, related particularly to agricultural banks, that could be implemented quickly. In addition, I would refer you to the July 23, 1985 testimony of our Office before this Committee on the examination and supervisory process. The recommendations provided at that time regarding ways to enhance supervisory tools for dealing with the banking industry's difficulties need continued exploration. Finally, there are a number of steps that could be taken to streamline the procedures that a bank must follow to restructure its operations in accordance with its current powers, which I will briefly discuss this morning.

Limiting our efforts, however, to treating only today's symptoms in an inadequate response. The long-term health of the banking industry is a critical public policy concern. As Federal Reserve Board Chairman Paul Volcker noted recently in testimony before this Committee and the House Banking Committee, a wide-ranging review of our outmoded banking laws is necessary to ensure the future safety and soundness of the industry. I heartily agree.

Banks, as providers of insured deposits and key participants in the nation's payment system, play a vital role in our economy. However, the entire financial services industry, of which commercial banks are but one part, is undergoing unprecedented change. The continued viability of the banking system demands that we allow it to adjust to that change. If we fail to do so, banks will have little choice but to engage in greater risk-taking within the markets available to them. The likely result of that trend, based on our observations, will be reduced profitability. Over time, that will materially reduce the ability of the banking system to compete and deliver products that consumers demand.

Today I want to discuss with the Committee some ideas which I have about the ability of banks to adapt and to

remain effective competitors in a changing marketplace — a matter that has long-term implications for the safety and soundness of the banking industry. For that discussion, I would like to:

- review with you changes in the environment faced by banks;
- examine some of the differences between the treatment of banks and other providers of financial services;
- address some of the policy and legal considerations involved in the modernization of financial industry regulation; and
- present recommendations for expanding the competitive opportunities for banks.

Inconsistencies in the Regulation of Financial Services

Mr. Chairman, as public policy makers, I know we all share a commitment to ensuring that the legal framework governing the financial services marketplace is logical and equitable. But, if we look around us, I believe it is apparent that there is much that needs to be done if we are to modernize the laws governing our financial services industries. Inconsistent and even harmful policies abound:

- A manufacturer and its captive finance company (such as General Motors and GMAC) are permitted to offer low-rate loans for its products and no public policy concerns are raised. But the suggestion that banks be permitted to act as real estate brokers and to finance real estate purchases raises the specter of conflicts of interest.
- Banks are prohibited from engaging in relatively low-risk activities such as underwriting the debt securities of highly rated corporate borrowers, but are encouraged to hold in their portfolios often higher risk loans to unrated borrowers.
- Banks are precluded from participating in the commercial paper market but can assume all of the associated credit risk by issuing standby letters of credit backing commercial paper.
- U.S. bank holding companies are permitted to underwrite securities and sell insurance overseas but may not engage in these same activities in the United States.
- Some financial service providers, such as Prudential and American Express, are permitted to combine commercial lending and securities underwriting — banks are not included.

These are but a few of the unfortunate results of our current legal framework. The policies that gave rise to these phenomena are not only difficult to justify, but they are also harmful to the banking industry and to the public which it serves.

Changes in the Financial Services Environment

The basic legal framework governing the financial services industry was established by Congress in the 1930s. While it may have been a reasonable response to the conditions prevailing in the industry at that time, much has changed since then. In fact, in recent years, the changes in the financial services market have been nothing short of revolutionary. Unfortunately for banks and their customers, the legal framework has not kept up with those changes. The result is an industry that is struggling to maintain its ability to compete. Consumers of bank services, both big and small, will be the losers if that struggle is unsuccessful.

Clearly, one of the most powerful forces causing this change has been the adoption of technological innovations. New technologies have become so common in everyday life that it is sometimes difficult to realize just how recent some innovations are: the automatic teller machines that now seem to appear on every corner were a novelty less than 15 years ago; individuals can shift their investments among a variety of money market instruments, equities, and bonds simply by using the telephone; and corporations can control their idle cash balances in a number of different banks, literally on an hourly basis. These, and a myriad of other technological innovations have dramatically changed the kinds of financial services that are demanded by customers. And these demands have put new pressures on the financial services industry to deliver. Many banks' existing delivery systems, developed over a long period characterized by pricing and geographic restrictions, are becoming obsolete.

Second, changing demographics have reshaped the market. Greater numbers of two-earner families have made convenience and the availability of one-stop shopping for a wide range of products increasingly important and attractive. The growth in home ownership in the postwar period has resulted in a substantial portion of the population whose wealth is concentrated in investment in homes. Banks as well as other lenders have sought ways to enable home owners to tap that wealth, significantly expanding opportunities for providing consumer credit. As the population has aged, innovations in employee benefit plans have emerged. Retirement savings, both through pension plans and individual accounts, have grown — a healthy development for the economic security of future generations. However, these retirement funds are typically administered by professional money managers who base their investment decisions solely on safety and expected return with little concern for the type of institution in which those funds are placed. Traditional notions of customer loyalty to banks are disappearing. Changes in rules governing the operation of some markets have been an additional force reshaping of the finan

cial services industry. The end of fixed brokerage commissions in 1975, for example, made possible the growth of discount securities brokers. The creation of federal and federally sponsored credit agencies such as GNMA, FHLMC, and FNMA, have dramatically changed the way in which housing finance is provided. State laws are rapidly changing, expanding the opportunities for direct competition among banks, insurance companies, and real estate firms.

Finally, economic changes have altered the market environment. The accelerating inflation of the 1970s and the extraordinarily high and volatile interest rates provided the impetus for the introduction of a number of new financial instruments. Today, fortunately, inflation is relatively low. Prices of some goods have actually fallen, with negative consequences for those who based decisions on the assumption that prices would continue their upward spiral. Despite the strong economic recovery since 1982, certain industries and regions continue to exhibit weakness. These include the well-known problems in agriculture, energy, real estate, and shipping, as well as the difficulties experienced by many less-developed countries. The recent dramatic movements in the price of crude oil have significantly helped some sectors of the economy, but have exacerbated problems in others. The unpredictability of such price movements are but one example of the increased volatility in the domestic and world economies. These conditions have increased the challenges facing all providers of financial services.

Changes in Market Structure

In response to the many changes in technology, demographics, and the economy, the financial services market has undergone significant restructuring. A variety of new financial products and services that are now available were unknown 20 years ago. Adjustable-rate mortgages, zero coupon bonds, interest rate swaps, money market mutual funds, open-ended home equity lines of credit — each has been introduced in response to new consumer demands brought about by the economic environment. Basic banking services have been offered in combination with other financial products so that it is now possible to obtain an array of financial services from a single provider — and even receive a consolidated financial statement. Consumers have demonstrated their desire for a full line of financial products at a reasonable cost and care little whether they obtain such products from a bank.

For the most part, commercial banks continue to operate within a regulatory framework created over a half a century ago. They are limited in their ability to adapt and innovate in response to the changes occurring around them. [illegible] that the commercial banks have seen an erosion of their traditional markets and yet have been prohibited from entering new markets. We are left with a world in which companies such as Sears, Merrill Lynch, or Prudential can offer the public virtually every financial service available, but banks remain narrowly confined to products considered "bank-related."

For example, Merrill Lynch's Cash Management Account has in less than nine years attracted more than one million customers and assets in excess of $70 billion. Of that, $19 billion is in Merrill Lynch money market mutual funds. That exceeds the assets at all but the largest 16 commercial banks. Clearly, this innovation, by combining transaction, investment, and credit services in a single product, has successfully filled a previously unmet customer demand. Why shouldn't banks be able to offer the same combination of services?

Time and again, the banking industry is forced to sit on the sidelines and watch other competitors develop more attractive products and services. In fact, it was not until money market mutual funds had grown to over $230 billion that the insured depository institutions were given authority to offer a similar account. Under existing laws, few commercial banks can hope to offer an array of services like that now provided by the major financial services companies. For instance, Sears, in many of its retail outlets, now offers securities, insurance, real estate, and insured deposit services.

In a number of ways, the market for financial services has become nationwide. For banks, interstate banking is occurring through many avenues, including loan production offices and nationwide solicitation of credit card accounts and deposits. Moreover, 20 states and the District of Columbia have enacted regional interstate banking laws, and 5 have eliminated all geographic barriers to entry. In all, 29 states, including those that permit limited-purpose banks and that have made special provisions for troubled banks, now permit some form of entry by out-of-state banks.

Other financial services providers face no restrictions on where they compete. Every day, the financial pages of local newspapers advertise mutual fund companies, unit investment trusts, and discount securities brokers with whom customers can transact business by a simple telephone call. The major securities and insurance firms have representatives across the country. Offices can be opened and closed at will. Contrast that flexibility with the difficulty and expense associated with a bank opening a branch across town, much less in another state or across the country. In a number of multistate metropolitan areas, it is virtually impossible for many bank customers to find a bank with branches close to both their work place and residence.

Changing saving patterns have also had an important effect on banks, significantly raising their cost of funds. In the 1970s, as Regulation Q interest rate ceilings resulted in low real rates of return on accounts at banks, savers moved their funds to financial instruments that paid market returns. The subsequent removal, beginning in 1978, of almost all interest rate ceilings has enabled banks again to compete aggressively for savings deposits. The composition of bank deposits changed fundamentally, however, and, as a result, relative costs have soared. In 1970, nearly 98 percent of the liabilities of banks with less than $1 billion in assets were in demand deposits or other accounts subject to a fixed-rate ceiling. By 1980, the figure had fallen to 64 percent, and in 1984, it was less than 18 percent.

At the same time, banks have lost an important share of their traditional lending markets. Nowhere is this more evident than in the market for commercial credit. In 1965, commercial bank lending accounted for more than 85 percent of short-term credit of domestic corporations. By 1975, the share was 75 percent, and in 1984 was less than 60 percent.

Much of this market share was lost to the commercial paper market. From 1975 to 1984, commercial paper outstanding grew at an average annual rate of 22 percent. Over the same period, bank loans grew at a 12 percent annual rate. Commercial banks are increasingly less competitive in providing top quality U.S. corporations with short-term credit — a product that was the core of commercial banking in the 1930s when the present statutory structure was established. The ability of commercial banks to retain this business by placing the commercial paper of traditional customers with investors has been recently thrown into question by a federal court, which found this activity to be illegal in the case of one state bank.

Similarly, competitive pressures are extending beyond national boundaries. The financial services market is becoming global in scope. Foreign banks, many of which operate with lower capital ratios, have aggressively sought lending opportunities in the U.S. and have been willing to trade thinner margins for increased market share. As of mid-year 1985, the U.S. banking offices of foreign institutions (including U.S. banks owned by foreign firms) held a 22 percent share of the U.S. business lending market. Even more significantly, from June 1984 to June 1985, business loans at domestic banks rose by only 5 percent; in contrast, over the same period, business loans at U.S. banking offices of foreign institutions rose by 14 percent. The net result of these developments has been an erosion of national boundaries as barriers to competition.

The Need for Banks to Adapt

I do not want to suggest to this Committee that the problems currently confronting the banking industry are all due to inflexible federal laws and regulations. Many of the industry's problems reflect a willingness of banks to assume large exposures to certain sectors of the economy such as agriculture, energy, and real estate. Some of these decisions were undoubtedly dictated by market loan demand, but the fact remains that portfolio concentrations reached unhealthy proportions. Notably, many banks suffering from concentrations of credit to currently weak economic sectors are located in states where statewide and interstate banking powers have been limited. As a result, individual banks in some of these states have been limited in the available sources of loan demand, making them extremely vulnerable to changes in local economic conditions. A small bank with a single office in a small agricultural community, for example, has much more limited lending options than does a bank that is part of a statewide or regional holding company or branch system.

Just as important, a number of banks in these states extended loans on the assumption of continued high inflation, particularly with respect to commodity and land prices. In hindsight, the dependence placed on steadily appreciating collateral values and the lack of attention to the borrower's fundamental earnings capability reflected poor credit judgment. While it is debatable whether anyone could have anticipated the sharp decline in prices that has occurred, it is clear that many other banks located in these same states exercised greater restraint in structuring their credits and avoided the heavy concentrations of credit.

There are some things that the industry can do now to help itself. For example, banks should be more aggressive in establishing correspondent bank networks or other relationships that would enable greater diversification of assets. Banks should also encourage states to reconsider the wisdom of existing branching and interstate entry prohibitions, especially under emergency conditions. Bankers' banks, organized in regions where efficiencies can be realized, should be considered as catalysts for independent bank diversification and expansion.

More generally, however, I believe that many of the banking industry's problems are a consequence of its inability to restructure itself in light of the rapidly occurring changes. Restrictions on geographic expansion have limited banks' ability to diversify their loan portfolios and funding sources. Restrictions on allowable activities have prevented U.S. banks from effectively serving changing customer needs, while other financial competitors have made significant inroads into some of their best market segments. Not only do these product limitations inhibit their services to consumers, they have also made it difficult for banks to seek alternative sources of income as their traditional activities have become less profitable.

The result has too often been a reliance on more risky lending or concentrations of credits as banks have sought to maintain an acceptable level of profitability.

The consequences of long-standing restrictions have become more severe in recent years as the competitive and regulatory conditions have evolved. Bank performance has clearly suffered. In 1985, 118 commercial banks failed, a post-Depression high, and we expect at least that many to fail in 1986. Earnings for the industry as a whole, relative to the risks it assumes, have been mediocre. In 1984, 10 percent of banks lost money, up from less than 3 percent in 1980. For the 14,200 banks with assets under $1 billion, the average return on assets has fallen in each of the last 5 years. For the largest banks, taken as a group, earnings have been flat for the past 6 years, and several banks have had sizable losses.

Fortunately, these are not irreversible trends, but I am concerned that unless we do something to facilitate banks' adaptation to change, we will end up with a permanently weakened industry. My knowledge of the legal framework convinces me that there is much that can be done.

The Need for Federal Action

Banks throughout the country — both large and small — are asking for the help of their regulators and the Congress to enable them to better serve their customers. Sometimes the banks do not speak with one voice because of their different sizes and the nature of the markets they serve. Nevertheless they will all benefit from a healthy banking industry.

But in the absence of Congressional action, the marketplace itself is attempting to respond to these changes. For banks, however, the opportunities are limited and the routes around the restrictions they face are often circuitous.

A prime example is the phenomenon of nonbank banks. The term nonbank bank is actually a misnomer because these entities are banks. They receive bank charters either from the state in which they are incorporated or from the OCC. They are capitalized in accordance with regulatory standards. They are insured by the FDIC and are examined and supervised as any other bank by the primary state or federal agency. The only difference between a nonbank bank and a bank is that the nonbank bank, by limiting its services, can be used by bank holding companies as a way around interstate banking restrictions and by other companies as a means of entering the banking business without coming under the restrictions of the Bank Holding Company Act.

The banking industry has gained less from nonbank banks than have other financial services companies. Nonbank banks do enable bank holding companies to expand across state lines, but the nonbank bank is by its nature considerably more limited in the services it can provide than a full-service bank. Reliance on the nonbank bank as a means of avoiding geographic restrictions is an inefficient mechanism that will ultimately raise the cost of banking services to the public.

On the other hand, when other companies acquire nonbank banks, they gain direct access to the payment system and the ability to gather federally insured deposits. Moreover, there are generally no restrictions on the other activities of the parent.

Although it is a limited vehicle for exercising greater flexibility, the nonbank bank is available to be used under our present statutory scheme, and its use by banking and other companies is a rational market response to the restrictions that have been placed on the banking industry. I expect the growth in nonbank banks to continue as long as the banking restrictions that gave rise to them remain.

If banks are not granted more flexibility, the marketplace will continue to find ways around the limitations imposed on banks. Clearly, it would be profitable to move ahead at the federal level with comprehensive legislation that grants banks in all states the ability to adapt, directly and efficiently, to a changing market.

Expanded Bank Activities

To enable banks to better serve their customers, legislation is needed that would modernize substantially the laws governing permissible banking activities. Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer as broad a menu of products and services as many of their nonbank competitors now offer, thus eliminating substantial inequities that now prevail among financial services providers. Banks would be able to pursue profit opportunities in lines of business that are an integral part of today's financial services marketplace, enabling them to better serve consumers. It would also have the important effect of offering banks alternative investments as well as new avenues of income, thus providing needed diversification opportunities.

Streamlining

There are a number of less dramatic steps that the Congress should also take that would enhance banks' ability to restructure their operations in response to changing market conditions. In particular, the burdensome procedures involved in bank mergers, consolidations, and

conversions need to be streamlined. For example, the complex "phantom bank" merger procedures should be replaced with simplified statutory reorganization procedures for national banks. I also favor the simplification and clarification of arrangements to ensure the rights of dissenting shareholders in national bank mergers and reorganizations, irrespective of the form in which the transaction is accomplished, and elimination of numerous archaic and burdensome statutory requirements pertaining to the organization and corporate structure of national banks. Consideration should also be given to expanding the extraordinary acquisition provisions of the Garn-St Germain Depository Institutions Act of 1982 to allow an out-of-state holding company that bids to acquire a failed bank to acquire the entire holding company of that bank.

Concerns About Greater Bank Flexibility

I am aware of a variety of concerns about expanding the range of permitted bank activities, including those in which there would be problems of conflicts of interest and concentrations of economic power could develop. These concerns are often used by special interest groups as support for continued restriction of competition. Where the concerns are substantive, I believe they can be addressed. The securities laws and regulations, the federal antitrust statutes, and our own prohibitions on transactions with affiliates, provide ample precedent for treating conflicts of interest through prohibitions against and penalties for conducting specific practices and through requirements for pertinent and timely disclosure. In my experience, markets without arbitrary barriers to entry are rarely characterized by unacceptable concentrations of power. The removal of current barriers to market entry faced by banks offers the surest guarantee of continued strong competitive practices in the financial services marketplace. And, in any event, mechanisms are or can be put in place, if necessary, to control undue concentration.

A more troublesome concern, in my opinion, is the belief that some of the activities proposed for banks are unacceptably risky. Because banks' ability to accept federally insured deposits and to provide access to the payments system makes them special, the argument goes, they cannot be allowed to take on additional risks, and, therefore, should be prohibited from conducting new activities.

I do not want to suggest that this concern is unimportant. In fact, as the primary supervisor of national banks, I have a keen sense of responsibility to see that these banks are operated in a safe and sound manner. But I do not believe that the way to achieve this is by keeping banks in a legal straitjacket. The long-term safety and soundness of the banking industry demands that it be allowed to expand the range of services that it can deliver to its customers, both in response to market demand and to remain profitable. I believe that the concerns that have been raised are manageable if we craft legislation outlining the manner in which commercial banks can conduct a broader range of activities.

The key safety and soundness issue related to banks engaging in new activities is the degree to which a bank's capital or liquidity can be impaired by losses or other adversities associated with the new activity. In making that evaluation, it must be recognized that a multitude of prohibited business activities are less risky than commercial or consumer lending. To the extent that an activity exposes or is perceived to expose a bank to increased risk, there only remains the task of implementing safeguards to limit the exposure of the bank's capital.

Focusing on that issue enables us to move beyond the question of what specific activities should be allowed and prevents the discussion from deteriorating into a debate among special interests. Attention can then be paid to the important public policy question of how the combination of banking and activities can be conducted either in a single entity or in an affiliated system while minimizing the risk to the banking functions — participation in the payment system and accepting federally insured deposits.

In addressing that question, it is important to note that there are three principal ways in which losses from additional activities could adversely affect the banking function. The first and most obvious is where a loss involves an explicit legal liability for the bank. Second, management could make a decision that the general interests of the overall organization would be served by the bank assuming a liability. An example of this would be when a loss is incurred by a subsidiary, and bank management determines that the bank will absorb the loss in order to prevent harm to the bank's name and reputation, even though there may be no legal liability to do so. And third, the public could perceive that losses incurred elsewhere in the organization reflect the condition of the bank, and therefore, withdraw or withhold funds from the bank.

A number of ways of insulating the bank from these adverse effects have been suggested, and all deserve consideration. One is some form of separation of the activity from the banking function. In addition, explicit controls could be placed on the relationships and transactions among banks and their affiliates. For example, requiring that the activities be conducted in a separately capitalized subsidiary, of either the bank or a holding company, would serve to protect the bank. It could be mandated that a bank supply capital to the subsidiary only to the extent that the bank has capital in excess of the supervisory minimums. If no excess capital were available the subsidiary would have to attract external capital

By placing some activities in subsidiaries, such subsidiaries could be run with less capital than that required of the bank. This would better enable them to market products competitively. These activities would be conducted subject only to such regulation and supervision that would exist if the subsidiaries were unrelated to a bank. For example, securities affiliates would be subject to the requirements of the SEC, and insurance affiliates would be overseen by state supervisory agencies. At the same time, the bank would remain subject to the oversight of its primary supervisory agency with all of the attendant capital requirements and restrictions on transactions with affiliates.

There are many other options for controlling banks' exposure from expanded activities that need to be explored. The point I would emphasize is that our efforts should be directed at how to structure the new activities so as to allow flexibility and still protect the bank — not debating which activities should be permitted. I think we will find that there are few, if any, activities that cannot safely be combined with banking.

Conclusion

Mr. Chairman, I know that you and the members of this Committee understand the importance of moving ahead with comprehensive legislation. Your substantial efforts toward achieving such legislation are to be commended. I stand ready to work with you to continue these efforts.

Despite the severity of the problems that grab the headlines, we cannot allow ourselves to become enmeshed in crisis management or the pursuit of quick fixes. My recommendations represent a long-term solution to the industry's problems. They will not immediately restore to health individual banks that today have problems, nor will they spell an end to bank failure in the future. Although short-term measures are certainly worthy of our attention, we must commit ourselves to exploring — and enacting — ways by which banks will be able to compete effectively and diversify prudently. Only then can we be assured that we have done everything possible to engender a strong banking industry that is responsive to the needs of the American public.

Remarks by Michael Patriarca, Deputy Comptroller for Multinational Banking, before the 65th Assembly for Bank Directors, Maui, Hawaii, March 8, 1986

"Who's in Charge?"

I am pleased to have the opportunity this morning to share my views on who's in charge in today's banking organization. In recent years, representatives from the Comptroller's Office have appeared before this group on a number of occasions. Each time they have stressed the importance of the bank director's role in supervising bank activities.

I can only reaffirm that message. The responsibility for the supervison of a bank continues to rest firmly, squarely, and appropriately on the board — the directors are in charge.

Bank directors have one of the most challenging jobs in the country today. They are destined to interesting times. They have more opportunities than past directors, they also face more problems. The days of the ceremonial bank director are long past. Serving as a bank director is not a job for just anyone.

Today I'd like to review some of the challenges I see banks facing, to discuss what I see as the director's role in facing these challenges, and to highlight some areas I believe should be of particular concern to directors in the current environment.

The Changing Environment

For years banks offered the same general services, the same rates, and the same risk of failure — virtually none. Today, banks actively seek to differentiate themselves; indeed, the very survival of an individual bank may well depend on its ability to find a suitable market niche.

Banks now offer different services, buy and sell funds at different rates, and take on different risks. Just the last 10 years have seen the advent of interest-bearing transaction accounts, ATMs, telephone bill paying, adjustable rate mortgages, discount brokerage — even banks that no longer handle cash. The amount of risk in the banking system has increased dramatically. Bank failures have reached record highs.

These changes didn't just happen. They were fuelled by sweeping technological advances, the most serious economic problems since the Great Depression, changes in market rules, and the intrusion of nonbanking companies into what were traditionally banking markets.

Both the financial products and the way they are offered have changed. For example, the Cash Management

Account permits customers to link securities, credit card, and banking transactions. Sears has taken that further to add real estate, insurance, and shopping services to the list of products available at one outlet.

The successful enterprise in today's environment is the one that anticipates and adapts to change. That is difficult for anyone, but, unfortunately, it is especially difficult for banks. Unlike other industries, banks' ability to adapt is limited by statutory restraints. Product and geographic restrictions prevent banks from fully restructuring. In addition, banks must operate in accord with a regulatory scheme designed to ensure the safety and soundness of the banking system.

It is not likely to get easier for banks. Certain sectors of the economy continue to decline. While efforts to remove statutory restraints have not been abandoned, so far they have achieved only limited success. The markets will not stand still, however. Indeed, if anything is certain today, it is that the pace of change will continue — and likely accelerate.

The Director's Role

How is a bank director to deal with these changes? The litany of problems can be overwhelming but it should not be. Despite the restraints under which they operate, the vast majority of banks are operating profitably and soundly. No doubt most of you represent such banks. With good management, a bank can prosper — even in today's difficult times.

In order to succeed as a director, you first need a thorough understanding of just what your responsibilities are. As the shareholders' elected representatives, the board of directors is charged with responsibility for setting overall policy and determining the direction the bank will take. Evaluating and guiding the bank's performance is your role.

The board may delegate execution of daily operations to a responsible officer, but it may not delegate the duty to supervise that officer to regulators or anyone else. The board has the authority to overrule the chief executive officer and the duty to do so when the officer's actions are inconsistent with bank policy or threaten the viability of the bank. All too often the board rubberstamps the CEO's actions.

The board is responsible for adopting sound policies and objectives and controls designed to ensure that the policies and objectives are implemented properly. The directors must provide clear parameters within which the chief executive officer is to operate. They should address all areas of a bank's activities, including loans, investments, liquidity, capital, planning, personnel, and compliance with laws. Demanding effective policies and controls is a fundamental board responsibility. The board can be liable for the consequences of unsound or imprudent practices, whether involving lending, investing, compliance, or any other banking activity.

The regulators are acting increasingly to hold directors accountable. When we have a problem with a bank, we go to the directors. Directors are asked personally to sign the examination reports we issue as well as many enforcement actions. Enforcement actions against directors, including civil money penalty actions, have been on the rise. The FDIC sues directors of nearly all failed banks.

Areas of Particular Concern

Moving from the general duties and responsibilities of directors, there are two areas that I believe should be of particular concern to directors in today's environment. The first is strategic planning. Due to the increased competition in the financial services area, banks can no longer take their markets for granted. It is critical that they realistically assess, and frequently reassess, their strengths and weaknesses and focus their efforts where they are most likely to succeed.

This is not an easy process. It is clear that all banks cannot provide all services to all customers, but it is difficult for an individual bank to decide which of the array of services it should provide. We see too many banks espousing the same goals. For example, many banks are targeting retail lending, each with a view of becoming the dominant lender in its market. It's clear that all of them are not going to make it. Only those who are adept at picking and choosing among the many products and markets will succeed.

The second area I would like to highlight is the operational side of banking. Bank operations is an area that has long been taken for granted. It is a highly technical area, with which many directors may not feel comfortable. Yet, if not properly managed, it is an area of incredible risk exposure for the bank. The recent breakdown in systems at the Bank of New York dramatically illustrates that point. Bank operations is also an area of great opportunity. As it becomes increasingly difficult for banks to book quality assets, one way to improve returns it to reduce operating costs.

Directors must make sure that their banks' back office operations are adequate to handle bank business, with back-up in the event of systems problems. Banks should not rush to market with new products, until they have adequate systems to handle the products. Too often the focus is only on the marketing side. Bank operations also play a critical role in bank acquisitions. The success of a bank merger is dependent on a smooth transition in bank operations.

Conclusion

I hope this discussion of the challenges facing bank directors has not discouraged you. As directors, you can provide a real source of strength to the institutions you direct. Indeed, the safety and soundness of the banking system rests with the board of directors of individual banks. Yours is not an easy task — but it is one worth doing well.

Statement of Robert L. Clarke, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, Washington, D.C., March 11, 1986

Mr Chairman and members of the Committee, I welcome this opportunity to appear before you to discuss the problems being experienced by agricultural banks. As you are well aware, the American agricultural economy continues to experience severe difficulties. Farm incomes and asset values, particularly the price of farmland, continue to decline, weakening the financial condition of highly leveraged farmers and putting pressure on agricultural lenders. Agricultural banks must continue to adjust to the changing and uncertain conditions in agriculture. However, the problems faced by agricultural banks will ultimately be eliminated only when the agricultural problem itself is eliminated — a process that may take several years, depending, among other things, on the future strength of export markets and the level of real interest rates.

This morning I would like to provide some background information on agricultural banks, and describe what actions our Office is considering to assist agricultural banks in making the needed adjustments. Then I will discuss additional measures that could be taken by the Congress, the states, and the banks themselves to ensure that this adjustment is as smooth and painless as possible for both lenders and farm borrowers.

Profile of Agricultural Banks

Agricultural banks, defined as banks with over 25 percent of gross loans in agricultural credits, number 3,900 — roughly one-quarter of all commercial banks. These banks hold about half of the $50 billion in commercial bank credit to the farm sector, and their total assets constitute approximately 5 percent of the total $2.6 trillion in commercial bank assets. They are located mostly in the midwestern states many of which have restrictive branching laws. As a result of this and because of the relatively small size of many of the communities they serve, the median agricultural bank is only one-half the size of the median nonagricultural bank. Seventy-three percent of the agricultural banks in this country operate out of a single branch.

Until recently agricultural banks generally out performed comparably sized nonagricultural banks. Due to their heavy concentration in farm loans and the growing credit quality problems in that sector, however, the condition of many agricultural banks has deteriorated.

As of September 1985 (the most current data available on an aggregate basis), there were 861 national agricultural banks. One hundred sixty-two of these reported losses, compared with 116 at yearend 1984 and 60 at yearend 1983. The median ratio of classified assets to gross capital funds at all national agricultural banks reached 52 percent as of this same date, up from 39 percent 1 year ago and 30 percent 2 years ago. In contrast, the ratio for agricultural banks rose only slightly over the past 2 years from 19 percent in September 1983 to 24 percent in September 1985.

The deteriorating condition of many national agricultural banks is also shown by their increased presence among the ranks of problem and failed banks. As of yearend 1982, only 1 percent of national agricultural banks were problem banks (*i.e.*, had CAMEL[1] ratings of 4 or 5). However, as of December 1985, 12 percent of all national agricultural banks, or 102, were problem instititutions. Of the 30 national banks that failed in 1985, 10 were agricultural banks.

Despite the significant problems facing many agricultural banks as the American agricultural economy adjusts to the changing world market, we believe that a significant majority have sound prospects for the future. Even with the large losses suffered by agricultural banks and the likelihood that these losses will continue to occur in the coming months, there remains substantial strength in agricultural banks. Many of these banks possess strong management that insisted on adhering to sound lending policies.

As a result, most agricultural banks hold significant amounts of capital and are continuing to generate earn-

[1] The CAMEL rating is a summary of the condition, on a scale of 1 to 5, of a bank at the time of examination. It is based on assessments of capital, assets, management, earnings and liquidity.

ings that equal or exceed those of other comparably sized commercial banks. As of September 1985, nine out of every ten national agricultural banks reported capital in excess of 7 percent; two-thirds in excess of 9 percent. While two out of every ten national agricultural banks reported yearend losses, almost two-thirds of all national agricultural banks reported a return on assets (ROA) of 1 percent or more. In fact, while the average ROA of all agricultural banks has declined significantly over the past several years, it still remains higher than that of comparably sized nonagricultural national banks.

Our intention in providing these statistics is not to suggest that there is no problem. For the banks that fail, the consequences are traumatic — for their employees, their shareholders, and the communities they serve. Moreover, the magnitude and severity of the problem has been made clear to us through our frequent meetings with national and state agricultural bankers. These meetings have been held both in Washington, D.C. and in the home states of these bankers. As a result, we do recognize that even among the better-managed agricultural banks, many are under financial strain. No doubt, there will continue to be pressure on earnings and capital, given the agricultural outlook and the prospective downward trend in farm loan quality. However, we are optimistic that the bulk of the agricultural banking sector possesses the resources, management talent, and willingness to work with their borrowers and believe that efforts should be directed toward finding ways to strengthen and assist them during this difficult period.

The OCC's Proposal

It is our view that the most beneficial thing we can do for those banks and their borrowers is to ensure that they have the opportunity and incentive to work with their borrowers to achieve mutually satisfactory loan workout plans. In particular, we must identify and remove obstacles that inhibit banks from successfully helping themselves and their borrowers. It is only by identifying their losses and restructuring credits to reduce farmers' debt burdens, that agricultural banks will be able to put their problems behind them and improve the quality of their loan portfolios.

Although such restructuring would be in the long-run best interest of banks and their borrowers, many banks have been reluctant to write down loans or grant other concessions to borrowers because of the effect this might have on their capital levels. In particular, banks fear that reduced capital levels could prompt regulators to direct them to make immediate increases in capital. In addition, they are reluctant to reduce capital because of the lower lending limit that would result.

The three federal bank regulatory agencies have been considering for some time a variety of ways that banks could be given the tools and the encouragement to effect long-term restructuring of problem credits. Among the options are the following, none of which require legislative action and all of which could be implemented by regulatory decisions.

First, banks could be encouraged to understand and use the provisions of Financial Accounting Standards Board Statement No. 15 (FASB 15) to account for restructured debt. FASB 15 can, under certain circumstances, be used to account for concessions in financing terms (*i.e.*, reduction of either principal or interest) granted to borrowers experiencing financial difficulty without requiring the institution to record any losses. FASB 15 has not been readily used in the past. Many bankers simply have not been aware of its existence. Moreover, it is, at least on the surface, somewhat complex. Finally, it is of limited use in situations where an actual credit loss has been incurred. Nevertheless, it is there to be used and we would propose calling it to the attention of bankers by reiterating the manner in which it can be used. It is a useful device. An example of how it would work follows.

> FASB 15
>
> Assume that a farmer has borrowed $100,000 at 12 percent for 5 years. Using a straight-line amortization schedule and simple interest, the farmer's payments would total $136,000 over the 5-year term. Assume the borrower's cash flow drops so that he can no longer afford to pay the entire amount over the 5-year term. To accommodate this reduction in cash flow, the lender can restructure the loan by extending the maturity, foregoing principal, reducing the interest rate, or some combination of the three. As long as the total cash payments to the lender aggregate to $100,000, the original amount of the loan, and the restructuring is done based upon reasonable prospects for repayment, under FASB 15, the lender would not have to write down the loan and recognize losses.

Second, we would propose modification of the present call report disclosure requirements for restructured loans to allow banks to distinguish those loans that, although restructured, are in compliance with the new terms. Under this proposal, such restructured loans would no longer be included in the category of nonperforming loans. Such a change would require a revision in the call report, which we are prepared to initiate immediately.

Third, and perhaps most importantly, we are considering the option of captial forbearance that we believe will encourage banks to write down problem loans and develop workout plans. The essence of this option is to encourage agricultural banks to recognize losses, but allow them to operate temporarily with lower levels of capital. Because a primary purpose of capital is to absorb unanticipated losses, we believe that agricultural banks should

they take advantage of their traditionally high levels of capital.

Capital forbearance, which is really a variation on loan loss deferral plans — but a better one we think — would permit banks to place a portion of their agricultural loan charge-offs into a segregated account. The amount in the segregated account could not exceed some percent of the bank's primary capital. Additions to the segregated account could be made during the first 2 years after implementation of the policy. The segregated account would then be amortized in equal increments during the 5 years immediately following the addition to the segregated account. Thus, the segregated account would exist for a maximum of 7 years. An example of how this option could be utilized follows.

> Capital Forbearance
>
> Assume that an agricultural bank with $50 million in assets and $5 million in capital incurs loan losses of $1 million. Under our present rules, the loans would be charged off against the loan loss reserve which the bank is required to maintain. Because the reserve is permitted to be included in primary capital, the $1 million charge against the reserve would reduce the bank's capital by $1 million. Under the capital forbearance option, the $1 million in agricultural loan losses would be placed in a segregated account and included as a memorandum account for reporting purposes. The segregated account would be reduced by $200,000 per year over the following 5 years.

We believe that capital forbearance would be responsive to the needs of agricultural banks and their borrowers during a difficult period of transition for a number of reasons. First, it is our hope that it will encourage banks to take advantage of the Farmers Home Administration (FmHA) Debt Adjustment Program. Under this already existing program, FmHA guarantees up to 90 percent of a renegotiated loan on which the bank has made interest and/or principal concessions sufficient to enable the borrower to service the restructured debt. The OCC has supported this program, which has the potential of benefitting both the borrower and the lender, and has encouraged bankers, through an examining issuance, to take advantage of it.

However, participation in the Debt Adjustment Program has been limited, at least in part, because of the reluctance of banks to write down loans and suffer the immediate diminution of capital. Under the capital forbearance option, the write-down could qualify the loan for the FmHA guarantee program, but would not trigger a regulatory demand for more capital. By augmenting a farm lender's ability to grant concessions, and thereby improve the ability of troubled borrowers to service their debts, the capital forbearance option would increase the likelihood that a satisfactory work-out could be arranged.

Another attractive feature is that capital forbearance will primarily benefit agricultural banks that have sufficient earnings to absorb the charge-offs and to replenish capital. In fact, banks that utilize this option will have increased motivation to undertake the adjustments necessary to bolster earnings. In effect, capital forbearance formally acknowledges that capital should be utilized during periods of unusually heavy loan losses, and that replenishment takes time. It would not, however, provide any support to those banks that have completely exhausted their capital, nor would it assist banks that have little or no prospect of returning to profitability. While these banks would continue to receive our supervisory efforts toward recovery, any special assistance might serve to simply prolong their difficulties without improving their prospects for recovery, thus raising the potential liability to the FDIC.

Capital forbearance would have other benefits as well. It would set simple limits to give agricultural banks a clear understanding of the regulatory concession. Agricultural banks could easily calculate their losses and resulting capital position. Moreover, write-downs taken to qualify loans for the FmHA guarantee could reduce the amount of classified assets, thereby improving the quality of a bank's remaining loan portfolio. Also, by encouraging banks to make legitimate charge-offs, it could enable them to reduce their tax bill or recover previously paid taxes.

There are also administrative advantages to this option. It requires no statutory change. Although it initially specifies a 7-year time frame, we would have the flexibility to extend it if conditions so warrant. It is easily understandable and self-executing, which means that bankers can enjoy the benefits immediately rather than make an application to the regulator and wait for a response. Finally, it utilizes existing programs and would not represent significant increased resource costs to the banking agencies.

We view capital forbearance as superior to other transitional assistance devices that have been suggested because it would accomplish the same end but avoids several adverse consequences that are inherent in the other proposals. Loan loss deferrals are a case in point. Loan loss deferrals would permit a bank to write down the loss portion of a problem loan over an extended period of time rather than all at once. Because the deferred write-downs would temporarily qualify as capital, they, in effect, accomplish the same thing as capital forbearance — *i.e.*, permitting a bank to operate with a weaker capital position than would normally be required by a regulator.

However, a loan loss deferral plan, unlike capital forbearance, would distort the financial statements. It would result

in a misleading report of a bank's net income and shareholders' equity because write-downs would not be accurately reflected. In our view, this is a serious shortcoming. The advantage of the capital forbearance option that we are advancing is that losses are recognized when they occur and clear disclosure is made to the reader of the bank's financial statements as to the transitory nature of the segregated account — yet banks still receive the needed time to bring their capital back to historical standards. Thus, the integrity of financial statements would be preserved so that neither shareholders nor the general public would be misled about a bank's financial condition.

The loan loss deferral plans that have been proposed may be flawed in another respect as well. They may encourage agricultural banks to postpone dealing with their problems by allowing an extended period of time for loan loss amortization. The capital forbearance option, on the other hand, would operate within a shorter time horizon to enable agricultural banks to confront their problems more immediately, resulting in earlier identification of losses and restructuring of loans. The workout period for the farm borrower would, of course, be unlimited. Once the losses are taken and loans are restructured, banks can get on with the task of building back capital — free from the albatross of an extended loss deferral that will penalize earnings for a long time in the future.

The proposed capital forbearance option is also superior to simply lowering capital requirements on a case-by-case basis, as has been suggested by some. A simple lowering of capital requirements would result in a parallel decline in the bank's maximum lending limit — posing problems for both borrowers and lender in renewing and restructuring loans. Amending the lending limit requirement to correct this problem would then require statutory revision. Under the capital forbearance option, the segregated account containing the agricultural loan losses could be counted toward capital for lending limit purposes. Also, unless capital requirements were lowered across the board, which would also require a lengthy regulatory change, banks being dealt with on a case-by-case basis would not know what kind of regulatory response to expect as they write down loans. The capital forbearance option has none of these disadvantages since it applies equally to all agricultural banks and requires no application process.

In sum, the capital forbearance option is intended to provide agricultural banks experiencing a drain on capital that is deemed to be temporary, a reasonable time within which to restore capital to adequate levels. With the benefit of temporary capital relief, bankers would have an incentive to recognize losses present in their loan portfolios, work with farm borrowers to restructure loans, and rebuild their capital in an orderly, planned manner

Other Needed Measures

Although we believe that capital forbearance will help agricultural banks deal with their current problems, it is not a panacea. It does nothing to mitigate the underlying causes of problems faced by agricultural banks. Agricultural banks will need strong earnings to replenish their capital and to ensure their long-run survival beyond the current downturn in the agricultural economy. To make this possible, it is critical to make changes that address the fundamental problems of inadequate asset diversification opportunities and inability to generate noninterest income. Congress and state legislatures can facilitate these changes, although their ultimate success will depend upon efforts made by the banks themselves.

Actions Needed by Congress and State Governments

In our view, the most important thing agricultural banks can do to improve their ability to withstand future downturns in the farm sector is to diversify their assets. A high concentration of loans to, or dependent upon, a particular industry is generally an imprudent lending strategy because it makes banks extremely vulnerable to that industry's performance. Some of the concentrated portfolios in agricultural banks resulted from conscious decisions by bank owners and management, who were willing to gamble on high land prices going higher — even when the economic returns produced by the land did not justify those decisions. However, the concentrated portfolios of agricultural banks are also attributable to factors beyond their control. Among those are restrictions on geographic expansion and on loan sales and purchases.

Principal among geographic constraints are state law limitations on intrastate branching and prohibitions against interstate multibank holding companies. Those constraints often make it difficult for banks in agricultural areas to diversify their loan portfolios, both by location and by the business of their borrowers. Geographic restrictions also have particular impact in the case of failing or failed banks. More flexible laws are needed to encourage and facilitate acquisition of troubled and failed banks.

Finally, geographic restrictions prevent banking services from being provided in the most efficient manner possible. Where branch banking is prohibited or severely limited, banks can enjoy the economic benefits afforded by larger organizations only by joining a multibank holding company. A bank that is part of a multibank holding company must still be separately incorporated and must have a full complement of officers and directors.

In light of these problems, we encourage states with restrictive intrastate branching laws to consider changing

these laws to open new opportunities for lending to agricultural banks and to facilitate the evolution of economically efficient banking structures. We also encourage Congress to consider amending the emergency acquisition provisions of the Garn-St Germain Act of 1982 by reducing the eligible asset size and allowing the acquisition of the entire holding company of a troubled bank rather than just the bank. Such liberalization would expand the alternatives for preventing and resolving bank failures. This would help ensure the continued availability of banking services to farm communities.

As important as the removal of restrictions on geographic expansion is, it alone will not be sufficient. One of the major causes of declining credit quality in the agricultural sector is depressed farm real estate values. For that reason, states should be encouraged to remove prohibitions on farm ownership that limit the market for farmland. The OCC has responded to this problem by generally allowing national banks to hold farmland acquired through foreclosures for as long as 10 years, the maximum allowed by law. As a result, these banks are not forced to put real estate on the market at an inopportune time, which would further depress farmland prices.

If agricultural banks are to continue to serve their farm communities adequately and avoid the problems in which they find themselves today, they need to increase the diversification of their borrower base. However, this may be difficult for a number of agricultural banks, particularly those in states where agriculture and related industries dominate the economy. The larger regional and multinational banks can originate loans nationwide and thereby lend to a variety of industries, but it is virtually impossible for smaller banks to achieve the same level of diversification. As a practical matter, a $20 million rural agricultural bank has no well-established market in which it can sell its loans or purchase interests in loans originated by other banks, nor are there shares of well-diversified loan pools available for purchase.

Although the acquisition of loan participations is one way for banks to diversify their loan portfolios, there are some obstacles that particularly impact the smaller community banks. Glass-Steagall prohibitions against commercial bank underwriting of securities mean that loan participations must be carefully structured. They tend to be available only in relatively large denominations — usually $1 million or larger. Also, they can have only a limited number of potential acquirers. Finally, acquiring banks are required to receive and analyze extensive documentation associated with each participation. Collectively, these features of loan participation limit their usefulness for smaller banks.

If smaller banks are to become active participants in the market for loans being sold and purchased, such loans will have to be converted into securities that can be freely transferred among investors. Those securities would have to be available in relatively small denominations and in a form like bearer bonds, that are freely transferable among depository institutions. Optimally, a secondary market with quoted prices would exist. Only the mortgage-backed securities market now has these characteristics.

Before such a market can develop for either shares of whole loans or loan pools, however, federal law must be changed to permit national banks to underwrite the sale of interests in pools of loans and to participate in private placements.

Specific authorization by Congress for commercial bank underwriting of interests in pools of bank loans, either by private placement or public offering, could significantly enhance the availability of loan sales and purchases for small banks.

Not all of the impediments to banks forming and selling security interests in loan pools are the result of legal constraints. One issue that can be addressed through regulatory action involves structuring the securities so that the purchasing bank has certain protections against default by the underlying borrowers (e.g., allowing the pooling bank to replace loans that become problem loans with performing loans), while granting the pooling bank the right, nonetheless, to remove the pooled loans from its books for reporting purposes. In conjunction with banks that have presented loan pooling proposals, our Office is developing procedures to deal with this and a number of other issues. We will continue to work with the banks and the other regulatory agencies in order to facilitate opportunities for asset diversification. We will also continue to develop policies that assure these growing methods of asset diversification are pursued in a safe and sound manner.

Actions Needed by Agricultural Banks

While actions by the Congress, the states, and bank supervisors would certainly ease the transition agricultural banks need to undergo, their long-term survival requires that agricultural banks themselves take several actions.

First, as we have outlined in guidelines issued to national banks, they should review the effectiveness of their lending policies. Unfortunately, a number of banks still lack adequate agricultural lending policies. In such cases, we stress that they should be established or revised to include:

- analyzing each borrower's cash flow and profitability from production before the loan is made;
- establishing and maintaining accurate and realistic appraisals on all collateral supporting agricultural loans;

- identifying repayment sources and establishing specific repayment terms for various categories of agricultural loans; and
- building a cushion in collateral values and anticipated cash flows to protect against a downturn in such values or cash flows.

Agricultural banks that ensure that accurate risk assessment and prudent collection policies and practices are in place will be less vulnerable to deteriorating loan quality, even during economic downturns.

In addition, agricultural banks should make an effort to reduce their reliance on the agricultural sector. They must, of course, serve the credit demands of their marketplace. However, banks should continue to work with their local communities in attracting new industries, and take advantage of opportunities for asset diversification as they become available.

As I indicated in my testimony last week before this Committee, the failure to modernize banking statutes has prevented many banks from reducing their reliance on lending. Product limitations have also made it difficult for banks to seek alternative sources of income as their traditional activities become less profitable. While such expanded activities have often been viewed as helping primarily large institutions, there is a tremendous opportunity for small banks to act as brokers in offering financial products such as mutual funds, or to enter into joint ventures with other banks for the delivery of these products. New opportunities for diversification of assets and income sources will make banks less susceptible to any future problems in the agricultural industry.

Conclusion

The current difficulties experienced by agricultural banks reflect farmers' severe financial stress. It is unrealistic to expect that the agricultural sector will return to the prosperity enjoyed during the 1970s any time in the foreseeable future. Consequently, the agricultural economy, including banks operating in that economy, will have to adjust to a lower level of farm income and reduced asset values more in line with prospective income.

We believe the regulatory policies inherent in our proposals today will provide agricultural banks with incentives and the time needed to address asset quality problems in a thoughtful and orderly manner, meet the needs of the borrowers they serve and help to rehabilitate both the borrowers and the bank. These policies will, we believe, preserve principles important to bank regulation and supervision and to public confidence in banking institutions. We believe that the FDIC and Federal Reserve are in substantial agreement with the concepts involved.

We are confident that agricultural bank problems can be resolved through the cooperative efforts of banks, their supervisors, state governments and Congress. We are ready to work with you in achieving these needed changes.

Joint Statement of the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency on Regulatory Policies Toward Agricultural Lenders

March 11, 1986

The Federal bank regulatory agencies are fully aware of the problems in the agricultural sector of our economy and the financial strains these problems have created for borrowers and lenders. In light of these conditions, the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements. Supervisory and regulatory policies to help achieve these objectives are outlined below.

In addition to the regulatory policies contained in this statement, the banking agencies continue to urge the Congress and state legislatures to take steps to help maintain the provision of banking services in small communities. The Garn-St Germain Act of 1982 prohibits acquisitions across state lines of troubled banks before they have failed and of failed banks with assets under $500 million. The banking agencies believe that these two constraints should be eased by allowing failing bank acquisitions across state lines and be reducing the size criteria so as to maintain the banking services in farm communities. An easing of state restrictions on branching could also help maintain banking services in small towns in cases when a separately organized and capitalized bank might not be viable.

In order to help alleviate strains on farm lenders and provide additional time to resolve problems in the agricultural sector, the banking agencies express their support for and commitment to the following supervisory policies and principles:

- A major function of capital is to absorb unanticipated losses and help an organization weather a period of adversity. Heavy losses may reduce a bank's capital below normal levels or below minimum regulatory guidelines. The banking agencies

[illegible] a bank experiencing difficulties to operate below the minimum capital requirement provided the bank has the capacity to restore capital within 5 years.

- The banking agencies reaffirm their policies not to discourage banks from forbearing on farm loans through appropriate debt restructurings, recognizing that such restructurings may be in the interests of both the bank and the borrower when there is a reasonable prospect that the borrower will eventually be able to repay the loan.
- Consistent with their general view toward forbearance the banking agencies will continue not to require an automatic charge-off of loans that have been restructured. Generally accepted accounting principles, as set forth in Financial Accounting Standard No. 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings), allow financial institutions to maintain the value of a restructured credit provided that the total of anticipated future cash receipts under the new modified terms which are both probable and can be reasonably estimated at least equals the principal value of the loan. Thus, generally accepted accounting principles do not necessarily require the immediate charge-off of loans or portions of loans that have been restructured in accordance with that rule.
- The banking agencies see no compelling reason for interpreting or reporting renegotiated debt with nonperforming loans. In line with this view, the agencies propose to modify regulatory reporting and disclosure requirements for restructured debt so that such debt, if it is performing in accordance with the new terms, would be designated as loans "Restructured and In Compliance With Modified Terms."

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Annual Convention, Independent Bankers Association of America, Las Vegas, Nevada, March 12, 1986

It's a pleasure to be here to contribute to your annual convention.

This group has a reputation for being conservative. There is certainly nothing wrong with that. I am conservative myself. Being conservative, before looking to the future, I first look to the past. I've found some very interesting and instructive things there.

I found what Marcus Aurelius, the Stoic philosopher and Roman Emperor, said almost two millennia ago: "Observe always that everything is the result of change, and get used to thinking that there is nothing Nature loves so well as to change existing forms."

And I found what Edmund Burke, the eighteenth century British politician, the supporter of colonial American rights, the founder of modern conservative thought, said: "Change is the means of our preservation."

He also said that the able statesman is one who combines with a disposition to preserve an ability to reform. Another way to state that mission is that an able statesman must reconcile the best of the old with the necessities of the new.

One part of the best of our American heritage is the independent bank. Independent banking, to use this organization's own words, serves America. Independent banking is, to use this organization's own words, an American ideal. It is an ideal at work in the marketplace every day — and this economy, this country, is the better for it.

As a practicing attorney, I represented independent banks. As a private citizen, I invested in independent banks. As a public official and as a conservative, I want to do what I can, everything that I can, to preserve the independent bank as a part of America's heritage.

As a public official I am sworn to see that the vitality of the banking system of this country as a whole endures. And as I thought about what I would say to you today, I heard the words of Edmund Burke echo across two centuries: "Change is the means of our preservation." For our banking system to be preserved, for our banking system to endure, our banking system must change. That does not mean that in changing there will be no place for the independent bank. But for independent banking to be preserved, it too must change along with the remainder of the banking system of which it is such a valued, vital, and vigorous part.

I am here to answer three questions:

- What are those changes?
- Why are they needed?
- And why should independent banks support them?

For many of you here today I know I will be preaching

to the choir on some of these points — you've already seen the future and you want to be a part of it. If Raymond Tiedje is here, he knows I'm describing him. Mr. Tiedje is the president of a $35 million asset bank in Norfolk, Nebraska — a town of 26,000. His bank is a member of this organization. Recently, I read a piece on Mr. Tiedge and his institution that said if you call his bank, they answer the phone: "Norfolk Financial Center." Besides traditional banking services, the article said, Mr. Tiedje's bank will take stock trades for customers. Along with other banks in the Norfolk area, his institution not too long ago jointly established a full-commission brokerage firm. The firm handles trades for Mr. Tiedje's bank — which is also affiliated with a real-estate agency. Thus, the article stressed, Raymond Tiedje's quest to turn his institution into a full service financial provider has begun in earnest.

This independent banker and others all across the country have seen the need for change so that their individual institutions can survive and prosper. That is what being a good businessman or businesswoman is all about.

As regulators, we at the Office of the Comptroller of the Currency have a different, though complementary, goal: we seek to ensure the continued vitality of the banking system. That goal demands that banks be allowed to adjust to the evolving financial services environment. If banks are not allowed to adjust, they will have little choice but to engage in greater risk-taking within the markets available to them.

One likely result of that trend, based on our observations, will be reduced profitability. And — over time — the end result will be a material reduction in the ability of the banking system to compete and to deliver products that consumers demand.

Faced with this prospect, we can pray or act or perhaps do both. Those of you here today who are Methodists will appreciate the story of how John Wesley, the founder of Methodism, learned early in life that the Almighty helps those who help themselves. When he was a child, one night his home caught fire. His parents sounded the alarm and, once outside the house, counted the children. One was missing.

Then they saw young John hanging out of a window on the top floor of the house — crying. His father dropped to his knees and began to pray that John would be saved. His mother ran to a neighbor's house, found a ladder, brought it back, leaned it against the wall of her burning home, climbed up and carried young John to the ground. The Almighty found a way to answer the prayers of John's father.

As a banking regulator, I smell smoke.

The consequences of long-standing restrictions on what banks can do have become severe in recent years as the competitive and economic conditions have evolved. Bank performance has clearly suffered. In 1985, 118 commercial banks failed. We expect at least that many in 1986. The total number so far this year totals 19. Seven were national banks.

Earnings for the industry as a whole, relative to the risks it assumes, have been mediocre. In 1984, 10 percent of the banks lost money, up from less than 3 percent in 1980. For the 14,200 banks with assets under $1 billion, the average return on assets has fallen in each of the last 5 years.

These are not irreversible trends, but unless something is done to reverse them, I am concerned that we will end up with a permanently weakened industry. My knowledge of the legal framework convinces me that there is much that can be done.

I am, as you know, a lawyer. And I always keep in mind the words of the British journalist Richard Ingrams: "When lawyers talk about the law, the normal human being begins to think about something else." As normal human beings, please bear with me as I discuss the law for the next few minutes.

There is much that needs to be done if we are to modernize the laws governing our financial services industry — in other words, to make the legal framework logical and equitable. At present, inconsistent and even harmful policies abound:

Today, a manufacturer and its captive finance company — for example, General Motors and GMAC — are permitted to offer low-rate loans for its products to your customers and no public policy concerns are raised. Yet, the suggestion that banks be permitted to act as real estate brokers while financing real estate purchases raises the specter of conflicts of interest. Like any ghost, this specter has no substance. But it still can be, and is, used to scare the credulous.

Today banks are prohibited from engaging in relatively low-risk activities such as underwriting the debt securities of highly rated corporate borrowers — the functional equivalent of loans. Yet banks are encouraged to hold in their portfolios often higher risk loans to unrated borrowers. This is like forcing someone to ride a motorcycle instead of a limousine because limos are occasionally involved in accidents.

Today, U.S. banking organizations are permitted to underwrite securities and sell insurance overseas but federal law does not permit them to engage in the same activities in the United States. Yet, if you're a banker — what many at home consider too risky for you is not considered

even those abroad.

These examples are just a few of the unfortunate results of our current legal framework. The policies that gave rise to them are not only difficult to justify — some would say impossible — but they are also harmful to the banking industry and to the public which it serves.

True, in the absence of Congressional action to restructure the legal framework, the marketplace — through the actions of innovators such as Raymond Tiedje in Nebraska — is attempting to respond to banking's needs to change. For banks, however, the opportunities are limited and the routes around the restrictions they face are often circuitous.

Just what, exactly, needs to be done? To enable banks to better serve their customers, legislation is needed that would modernize substantially the laws governing permissible banking activities.

Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer as broad a menu of products and services as many of their nonbank competitors now offer, thus eliminating substantial inequities that now prevail among financial services providers. Banks would be able to pursue profit opportunities in lines of business that are an integral part of today's financial services marketplace, thereby enabling them to better serve customers. It would also have the important effect of offering banks alternative investments as well as new avenues of income, thus providing needed diversification opportunities.

The issue should not be "in what activities can banks safely engage?" But rather, "what can we do to protect the bank against exposure from the variety of activities in which it does engage?" I think we will find that there are few, if any, activities that cannot safely be combined with banking.

I am sure many of you would say: "Why take this action now? My market share has not been eroded." But I'm equally sure Raymond Tiedje and other independent bankers like him would answer: That is not the point. You don't wait until everyone in town feels the heat from a burning house before you call the municipal fire department.

The point of regulation — as I see it — is not to be the lifeguard at the YWCA pool. It is, rather, to be the inspector and supervisor who ensures that the pool is built safely and that everyone follows the rules so that no one dives head first into 24 inches of water or goes off the deep end unless he knows how to swim.

The pool, ladies and gentlemen, needs to be redesigned for safety. In other words, we need comprehensive legislation at the federal level that grants banks in all states the ability to adapt, directly and efficiently. If we don't achieve that comprehensive legislation, the market will continue to find ways around banking restrictions — ways like the nonbank bank.

Although it is a limited vehicle for exercising greater flexibility, the nonbank bank is available to be used under our present statutory scheme, and its use by banking and other companies is a market response to the restrictions that have been placed on the banking industry. I expect the growth in nonbank banks — and other such circuitous devices — to continue as long as the banking restrictions that gave rise to them remain.

I agree with many of you that the nonbank bank concept should be brought to an end. The way to do that is through comprehensive restructuring of the federal legal framework to make the concept irrelevant. A few years after such restructuring, the nonbank will be nothing more than a footnote in financial history — a place both you and I believe it so richly deserves.

To achieve that comprehensive restructuring, the independent banker can provide help in time of need, peace in time of turmoil, guidance in time of decision: all this by recognizing that change is the means of preservation and by working with banking colleagues, regulators and other public officials to ensure that the necessary changes are made.

For some of you, these changes will mean the difference in the survival of your institutions. For others, they will mean the difference between mere survival and prosperity. All of us here today have an interest in seeing that these changes are made.

I cannot leave you today without touching on what happened in Washington, D.C., yesterday. I testified before the Senate Banking Committee on how the three federal bank regulatory agencies have been considering for some time a variety of ways that agricultural banks could be given the tools and the encouragement to effect long-term restructuring of problem credits. I talked about three options, none of which require legislative action and all of which could be implemented together by regulatory decisions.

First, banks could be encouraged to understand and use the provisions of Financial Accounting Standards Board Statement Number 15 to account for restructured debt. It can, under certain circumstances, be used to account for concessions in financing terms — reduction of either principal or interest — granted to borrowers experiencing financial difficulty without requiring the institution to record any losses. It has not been readily used in the past — many bankers simply have not been aware of its existence. It is there to be used and we would propose call-

ing it to the attention of bankers by reiterating the manner in which it can be used.

Second, we would propose modification of the present call report disclosure requirements for restructured loans to all banks to distinguish those loans that, although restructured, are in compliance with the new terms. Under this proposal, such restructured loans would no longer be included in the category of nonperforming loans. Such a change would require a revision in the call report, which we are prepared to initiate immediately.

Third, and perhaps most importantly, we are prepared to allow banks to elect to participate in a "capital forbearance" option that we believe will encourage banks to write down problem loans and develop workout plans. We look at this option as first aid, as farm aid, and as Congressional aid. It is not, however, lemon aid.

Despite the significant problems facing many agricultural banks, we believe that a significant majority have sound prospects for the future. We believe this option would provide these agricultural banks with incentives and the time needed to address asset quality problems in agriculture without compromising the principles important to bank regulation and supervision. The essence of the plan is to encourage agricultural banks to recognize losses, but allow them to operate temporarily with lower levels of capital.

Because a primary purpose of capital is to absorb unanticipated losses, we believe that agricultural banks should now take advantage of their traditionally high levels of capital. Capital forbearance, which is really a variation on loan loss deferral plans — but a better one we think — would permit a bank to operate for a period of time with a lower level of primary capital but would not disturb the bank's lending limit to an individual borrower.

The capital forbearance option, which could be elected by individual banks, would allow a bank to take loan losses which would drop the primary capital of the bank to a level below current regulatory requirements. Election of this option would require that banks restore their capital to regulatory minimums in annual increments over a period of no more than 7 years. Also banks electing this option would be subject to limitations on payment of dividends, acquisitions and growth.

Banks would be provided a mechanism by which their lending limits to individual borrowers would not be disturbed during the 7-year period

Details of the capital forbearance option are still being developed in ongoing discussions among the three federal bank regulatory agencies. We hope that state regulators would adopt the concept.

This option, as I said before, would require no legislative action. Although it initially specifies a 7-year time frame, we would have the flexibility to extend it if conditions so warrant. It is easily understandable and self-executing, which means that bankers can enjoy the benefits immediately rather than make an application to the regulator and wait for a response. Finally, it utilizes existing programs and would not represent significant increased resource costs to the banking agencies.

It is First Aid because the option would give well managed agricultural banks temporary capital relief so that they could rebuild their portfolios. It is not a cure-all, but a type of emergency treatment that will allow these banks to rehabilitate themselves. Their long-term viability requires that agricultural banks themselves take several actions, and that Congress make the changes I talked about earlier.

It is Farm Aid in that it would benefit not only banks, but bank farm customers — the other side of workout arrangements — as well.

It is Congressional Aid in that it would allow Congress the time to consider carefully the long-term changes that it should make, the changes I talked about before.

But it is not Lemon Aid because the option would not provide any support to those banks that have completely exhausted their capital, nor would it assist banks that have little or no prospect of returning to profitability.

I think that — upon reflection — you will conclude that this approach is evidence that the Office of the Comptroller of the Currency is concerned with the vitality of the entire banking system — which consists of large and small institutions, however you wish to define them

I look forward to working with you as we continue to define what banking is and what banking is to become

Remarks by Robert L. Clarke, Comptroller of the Currency, before the "Restructuring the Banking Industry" Conference, New York, New York, March 13, 1986

When Will Rogers first spoke before a bankers' convention in 1922, he opened his remarks with "You are without doubt the richest audience I've ever talked to." Since I know there are some lawyers in the audience, I'm unsure how rich the audience is financially, but certainly this is a group rich in experience and knowledge of the financial services industry. I'm pleased to have the opportunity to be with you.

Having been luncheon speakers yourselves, you know I find myself in a race against time: your biological clocks. The audience that has just eaten is in no shape for a detailed, technical discussion — and is less so as time passes. So I will leave the technical discussion for my distinguished fellow speakers this afternoon.

Instead, I would like to give you some of my thoughts about restructuring the banking industry from a broad perspective — in other words, how we got to where we are and where we go from here.

We're lucky to have a seasoned companion for this journey back and forward: the *American Banker*, now in its 150th year. The *Banker* — known by another name early in its 150-year history — has not only reported the development of banking in this country. In many ways, its own development paralleled that of banking. And in many ways, the paper has shaped the industry it covers.

As a banking attorney, I read the *Banker* every day for 10 years. As I waited in Houston for news of my nomination and confirmation to my present post, I relied on Bart Naylor's writings and telephone calls for the latest fact — and rumor.

True, there have been some important banking stories that the paper failed to cover. Consider its first year of existence — 1836. J.P. Morgan was conceived that year — but no mention of this august event in American banking's history appeared in the paper. Where was Bart Naylor when they needed him most?

In 1836, my home state, Texas, became an independent nation, setting off a chain of events that would lead to my becoming Comptroller of the Currency — though I doubt that even Sanford Rose could have read that trend had he been around then. But had he been there, he surely would have used his perspicacity well in interpreting the ramifications of the biggest banking story of that year. He would also, I believe, have predicted that it would lead to the creation of something very much like the Office of the Comptroller of the Currency.

Of course, the big story of 1836 that I am referring to was the death of the Second Bank of the United States. The *American Banker* did not cover that story either — and for good reason. It was the death of the bank that led to the birth of the newspaper — although in a different name, form and purpose than it has today.

Andrew Jackson's refusal to recharter the bank ushered in the period of what we call "wildcat" banking. Suddenly, there was no true measure by which the public could know the worth of an individual bank's notes. Confidence in paper money diminished rapidly, almost to the point of vanishing completely.

John Thompson, a 34-year-old dealer in state lottery tickets, decided to fill the currency information void. He established *Thompson's Bank Note Reporter* — later renamed *American Banker* — to report the value of bank notes and to report on events in the industry. The paper became "must reading" for anyone handling bank notes. Circulation soared to more than 100,000, a figure that, I'm sure, the present owner of *American Banker* envies.

John Thompson, the original owner, became a rich man. Along with two sons — Frederick and Samuel — he helped found two banks. Although he was not among the shareholders, he received the first charter for a national bank in New York — First National Bank, later renamed First National City Bank . . . yes, today's Citibank. His sons were the major shareholders. As personal friends of Treasury Secretary Salmon P. Chase — a point I will return to in a moment — the Thompson clan made First National a leading instrument in financing the war between the states.

I'm tempted to talk about Citicorp's role in a current war between the states, but that's another story for another time, and perhaps even for another speaker.

To return to the *American Banker* — and American banking's — saga . . . When John Thompson's sons sold their interest in First National in 1877, they organized a new bank, named for the Treasury Secretary — Chase National. By that time, John Thompson had known Chase — and the first Comptroller of the Currency, Hugh McCulloch — for many years.

Early on in the Lincoln administration, you see, John Thompson became a strong advocate of a national cur-

rency. He sent a letter to Chase outlining a ten-point plan on the subject. It was the Thompson plan — combined with suggestions from other advocates of a uniform currency system — that formed the groundwork for the National Currency Act — later renamed the National Bank Act—the law that created the Comptroller of the Currency.

I guess one could say that, in a way, I owe my job to the publisher of what was, in effect, the *American Banker* — long before the newspaper was to go by that name and before I carried mine, either.

The twists and turns of history continued, and I would like to touch on just a few briefly now.

In 1873, by special arrangement with the Treasury, *Thompson's Bank Note Reporter* was made, to quote the announcement, "the organ of the Comptroller of the Currency." Despite what critics of the agency and the newspaper say, that arrangement lapsed many decades ago.

In 1906, the name of the publication was changed to *American Banker*. In 1925, it gave itself the title "The Only Daily Banking Newspaper." I don't say that in a sarcastic or an ironic way. Napoleon, you will remember, crowned himself emperor of the French. The action in no way lessened his position as *de facto* emperor of the French — as an entire generation of Europeans learned, for some of them, the hard way.

In giving itself its title in 1925, the *American Banker* was merely pointing out the obvious — as it has done since *Thompson's Bank Note Reporter* headlined its comments on individual bank currency with the words, "Beware of the Trash."

As you well know, I and my colleagues at the Office of the Comptroller of the Currency are working in Washington on a plan for restructuring the banking industry, in a word to "modernize" it. Why is such a plan needed?

Two years ago, the *American Banker* explained why. On April 23, 1984, the newspaper changed the title it held for almost 60 years — and named itself "The Daily Financial Services Newspaper." In explaining the change, the paper said, the new slogan "more accurately reflects the mission this newspaper has assumed in recent years in covering the deregulated banking industry — both how the industry has broadened its mandate in serving retail and wholesale markets and how the distinctions between banking and non-banking institutions have continued to blur."

And blur they have since then — with a vengeance. Today, we have a financial services industry. Banking is restrained by a legal framework from being a full member of that industry.

I am charged by law with the duty of insuring the safety and soundness of the national banking system. In testimony before the Senate Banking Committee last week, I stated that the future vitality of the banking system depends upon fundamental changes that will allow innovation and restructuring to meet the demands of today's marketplace.

Banking is trapped in a Catch-22. It cannot adapt now because 50 years ago men who wore spats and carried walking sticks believed commercial banking, if strictly regulated, carried less risk than other types of financial services. As a result, restrictions on geographic expansion have limited banks' ability to diversify their loan portfolios and funding sources. As a result, restrictions on allowable activities have prevented U.S. banks from effectively serving changing customer needs, while other financial competitors have made significant inroads into some of banking's best market segments.

Not only do these product limitations inhibit banks in serving consumers, they have also made it difficult for banks to seek alternative sources of income as their traditional activities become less profitable. As a result, banks have too often taken on more risky lending or concentrations of credits as they have sought to maintain an acceptable level of profitability.

The consequences of long-standing restrictions have become more severe in recent years as the competitive and economic conditions have evolved. Bank performance has clearly suffered.

In 1985, 118 commercial banks failed, a post-Depression high, and we expect at least that many to fail in 1986. Earnings for the industry as a whole, relative to the risks it assumes, have been mediocre. In 1984, 10 percent of banks lost money, up from less than 3 percent in 1980. For the 14,200 banks with assets under $1 billion, the average return on assets has fallen in each of the last 5 years. For the largest banks, taken as a group, earnings have been flat for the past 6 years, and several banks have had sizable losses.

Fortunately, these are not irreversible trends, but I am concerned that unless we do something to facilitate banks' adaptation to change, we will end up with a permanently weakened industry.

What can be done to free banks from this Catch-22?

Release the catch. [illegible] several of our recommendations and [illegible]

On nonbank banks [illegible]

[illegible] state lines, but the nonbank bank is by its nature considerably more limited in the services it can provide than a full-service bank. Reliance on the nonbank bank as a means of avoiding geographic restrictions is an inefficient mechanism that will ultimately raise the cost of banking services to the public.

When other companies acquire nonbank banks, however, they gain direct access to the payment system and the ability to gather federally insured deposits. Moreover, there are generally no restrictions on the other activities of the parent.

Clearly, instead of continuing to argue over the nonbank bank, it would be preferable to move ahead at the federal level with comprehensive legislation that grants banks in all states the ability to adapt, directly and efficiently, to a changing market.

In that regard, legislation is needed that would modernize substantially the laws governing permissible banking activities to enable banks to better serve their customers. Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer as broad a menu of products and services as many of their nonbank competitors now offer, thus eliminating substantial inequities that now prevail among financial service providers.

Banks would be able to pursue profit opportunities in lines of business that are an integral part of today's financial services marketplace, enabling them to better serve consumers.

Such legislation would also have the important effect of offering banks alternative investments as well as new avenues of income, thus providing needed diversification opportunities. Furthermore, to the extent that a new activity exposes or is perceived to expose a bank to increased risk, there only remains, in my opinion, the task of implementing safeguards to limit the exposure of the bank's capital.

Focusing on that issue would enable us to move beyond the question of what specific activities should be allowed and prevents the discussion from deteriorating into a debate among special interests. Attention can then be paid to the important public policy question of how the combination of banking and activities can be conducted either in a single entity or in an affiliated system while minimizing the risk to the banking functions — that is to say participation in the payment system and acceptance of federally insured deposits.

[illegible] enough, is that efforts should [illegible] of how to structure the new activities so as [illegible] protect the bank — not debating [illegible] permitted.

I think we will find that there are few, if any, activities that cannot safely be combined with banking.

Laying aside self-interest — which almost always raises its narcissistic head when questions are addressed through politics rather than through economics — can any of you disagree?

In 1863, the national banking concept was attacked by opponents, who viewed it, in their own words, as a "new and dangerous experiment." Prophets of doom predicted that, if the National Currency Act were enacted, the legislation "would spread ruin, broadcast over the land, producing such a scene of financial calamity as shall make all our previous convulsions compare with it as a child's rattle to a whirlwind."

It has been my experience, as a student of banking history and a practicing attorney, that few people oppose financial restructuring legislation on deeply held philosophical or moral grounds. Financial restructuring legislation is, as they say, a pocketbook issue.

Just as laws restricting commercial banks must change in response to industry needs, bank supervisors must be prepared to accommodate our own rules and guidelines to serve the goals of safety and soundness and the stability of the system.

A good and very recent example is the three-part proposal set forth Tuesday by the three federal bank regulatory agencies as an interim solution to some of the problems facing agricultural banks.

This proposal was advanced in response to the increasing distress of agricultural banks, which have been seriously impacted by the economic problems of the industry and the markets they serve.

Although agricultural banks hold only about 5 percent of U.S. commercial bank assets, there are 3,900 of them serving smaller communities principally in the Midwestern states. Of the 30 national banks that failed in 1985, 10 were agricultural banks. For banks that fail, the consequences are traumatic for the communities they serve, not to mention the effect on their customers, employees and shareholders.

After trips to visit with farm belt bankers and borrowers, and after receiving a number of thoughtful suggestions from the ABA-IBAA joint task force, economists, accountants, and members of Congress, it was our view that the most beneficial thing we can do for agricultural banks is to identify and remove obstacles that inhibit those banks from successfully helping themselves and their borrowers work out of their problems. Many of the agricultural banks have been reluctant to face up to their problems,

restructure problem loans where possible, and take losses where necessary, because of a fear that regulators would make immediate demands for new capital.

The centerpiece of the proposal, described by the three agencies on Tuesday, is an option of "capital forbearance" which we believe will encourage banks to write down problem loans and develop appropriate workout plans.

Details of the capital forbearance option are still being formulated but the essence of the concept is an encouragement to banks over the next 2 years to restructure their portfolios and take losses if necessary. Even if such losses would drop a bank's capital below traditional levels — or in some cases below current regulatory requirements — the supervisors would allow a temporary lower capital level if the bank agrees and is able to return its capital level at least to regulatory minimums within no more than 7 years.

Banks electing this option would also be required to agree to limitations on such things as acquisitions, payments of dividends, and growth. Additionally, a mechanism would be incorporated in to the option that would leave the pre-charge off loan limit of the bank intact during the capital restoration period.

The other two parts of the proposal — parts which we plan to implement in any event — are:

(1) Banks would be encouraged to understand and to use Financial Accounting Standards Board Statement Number 15, an already existing accounting principle, which allows banks, under appropriate circumstances, to account for concessions in financing terms on restructured loans without requiring the institutions to record a loss. This accounting principle has existed for many years but has not been widely used, in part because the FDIC did not allow its use and many national bankers apparently did not understand it.

The FDIC will now permit it and all of us intend to provide clarification as to its use.

(2) Loans which have been restructured and are in compliance with their new terms will no longer be required to be disclosed as "nonperforming" on a bank's call report. Amendments to the call report form are being initiated.

We believe that the approach which I have just described is superior to other assistance devices such as net worth certificates and loan loss deferrals, primarily because our proposal can be easily implemented, will not distort the bank's financial statements, will recognize losses as they occur and will properly reflect capital.

We believe that this is an appropriate and timely regulatory response to a growing problem within the banking industry.

Change must come about in banking in many ways.

So it was in 1863. In 1863 the legal framework for banking changed. It had to change for banking to retain its vitality. As it was then, so it must be now.

If you don't agree, I urge you to read *American Banker: The Daily Financial Services Newspaper*. It will tell you and it has been around a lot longer, and has seen a lot more, than you — or I.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Houston Club, Houston, Texas, March 20, 1986

"Common Sense and the Common Interest: Why Banks Must "Modernize" to Meet the Needs of Changing Times"

On the plane out here I reread the letter Scott Caven sent out late last month about my appearance.

I loved the beginning: "Over the past few years, bank failures in the United States have skyrocketed. In Texas falling oil prices have created deteriorating conditions in energy and real estate loan portfolios at our state's major financial institutions. Is the regulatory supervision of banks adequate? Should we expect more target examinations at Houston's banks? Will the nation's banking system remain sound in a deregulated atmosphere?"

Ladies and gentlemen, the loaded question is a deadly weapon.

Today I could give you simple answers to those three questions: Yes, regulatory supervision is adequate. Maybe we can expect more targeted examinations. Yes, the banking system will remain sound in a deregulated environment.

But I know that this is an audience that doesn't want answers that are oversimplified. You are a critical audience

[illegible] of the word — judicious in weighing what [illegible] has to say and crucial to the future success of this city and this region. So rather than reciting simple answers, I feel I have a responsibility to you to explain the reasoning behind bank supervision — who bank regulators are and why they do what they do.

And while I talk, I want you all to keep in mind another point in Scott's letter that caught my eye. He referred to me as a "former Houstonian." Even though I spend the night and go to work in Washington, I want this audience to know that I still call Houston home. I went to college here. I practiced law here for almost 18 years. My wife and I still have our home and many friends here.

And most important — personally and in my current capacity as a bank regulator — I share with all my fellow Houstonians a concern for economic stability and growth and an admiration for the people of Houston — innovators, builders and survivors — the real natural resource of this city.

One hundred and fifty years ago, the Lone Star Republic was born just east of here in San Jacinto. Its prospects were terrible. It was embattled and impoverished. Its president, Sam Houston, lived in a shack — the people of Texas too poor even to buy firewood for the president's residence, a two-room log house. Worst of all, there was no air conditioning.

Visit the battlefield today and you find yourself surrounded by refineries, chemical plants, and grain elevators. On the horizon, you'll see Houston.

You don't find people on a company's balance sheet — but people built all this, the fourth largest city in the United States. And the same people who built this magnificent city with the spirit that has spread worldwide will ensure that Houston continues to grow.

Banks have an important role to play in that growth.

Not only have banks provided the financing that has been the fuel on which the entrepreneurial engine ran, banks and bankers have provided the proper leadership that has made Houston grow.

Look behind every major civic organization in Houston and you will find a banker or someone with strong involvement with a bank providing skillful guidance.

Because banking is such an important thread in the fabric of society, bank regulators have an important role to ensure that banking institutions remain a source of strength [illegible]. Another way of saying that is that [illegible] work to ensure that banks don't become a source of weakness to the community.

Sometimes people — and even bankers — look at bank regulators as the guys who come in and shut banks down. After all, that is our headline role in newspaper and television news stories. We bank regulators would rather look at ourselves as the guys who help keep banks open — and growing.

The Office of the Comptroller of the Currency is one of three federal bank regulatory agencies. The other two are the Federal Deposit Insurance Corporation and the Federal Reserve System. The FDIC administers bank deposit insurance and is generally the Federal supervisor for state banks. The Federal Reserve System supervises bank holding companies and the state banks that are not regulated by the FDIC. The Comptroller of the Currency has nothing to do with currency — you won't find my name on a dollar bill, although another Houstonian, Jim Baker, has his there. The Office once did have much to do with currency many years ago when national banks issued their own currency and that's why the agency continues to carry its name.

A more appropriate title for my office would be Administrator of National Banks. The Comptroller's Office is responsible for almost 5,000 national banks with assets of almost $1.6 trillion. National banks represent about two-thirds of all the banking assets in the United States. Other banks are chartered by state governments and are supervised, as I said, either by the FDIC or by the Federal Reserve System. National banks are under our supervision from the day we charter them. We have the responsibility to determine whether a bank can open a branch, add a new automated teller machine, and whether it must increase its capital. We review and approve mergers involving national banks and have the authority to disapprove proposed changes in control. We issue our own rules and regulations and enforce them as well as others when Congress directs us to. To do all that effectively, we must monitor banks off-site and conduct on-site examinations of all national banks. In the case of a very small, well-managed bank, our examinations happen less frequently. In the case of the large multinational and regional banks, examiners from our Office are in the bank virtually full-time. And the fact they are there full-time doesn't mean that the bank is in trouble — it just means that the bank is so big that it takes our people virtually all their time to get around to all the parts of the bank that we believe need supervision. In those few instances where a bank gets itself into real trouble, we have to take actions to help get it back on the right track. Sometimes there are so many problems that the bank cannot recover and we have to declare it insolvent and close its doors.

I can tell who the bankers are in the audience today because their eyes — despite their best efforts — are glazing over. Forgive me my brief exercise in describing part of the bank regulatory system in such simple terms.

The point I want to make with all of you — bankers and nonbankers alike — is there is very little new in what the OCC does. The Office has been around since 1863. In all that time, banking regulation has played a major role in the distribution of the financial resources of the country. The National Currency Act — the law that created the OCC — explicitly provided for supervision, including continued scrutiny of bank records. Examinations have been discussed by Comptrollers in almost every Annual Report of the agency since Hugh McCulloch issued the first one in 1864. On September 15 of that year he sent to every national bank examiner the first of what would become a series of detailed instructions to the examining force.

In the 1880s, the fifth Comptroller of the Currency, Henry W. Cannon, stated that examination went beyond a mere inspection of ledgers to a close scrutiny of the business of banking. That is to say, examination looked beyond just the numbers to the responsibility and prudence of bank's management and the total quality of its loans and investment portfolio. Examiners, Cannon believed, should consult with officers and directors concerning broad principles of bank management. Comptroller Cannon made critical analysis from Washington an integral part of supervision — although as early as the 1860s Comptroller Freeman Clarke wrote letters to banks commenting upon the results of examination reports and requesting correction of weakness. A full century ago, Comptroller Cannon established the tradition that it was the function of supervision to correct basic managerial difficulties when they were incipient and not simply to perform what amounted to routine audits.

Now those of you familiar with the history of the late 1860s, the 1870s and the 1880s — you lawyers, history buffs and incorrigible capitalist romantics — know that those weren't exactly what you would call antibusiness times. Those years saw the birth of modern industrial America — with the Federal government acting as midwife. It was precisely because the government sought economic stability and economic growth that Federal bank regulation began. And it is precisely because we all want economic stability and economic growth that Federal bank regulation continues — though some would say "continues unabated."

The first Comptroller, Hugh McCulloch, addressed a letter to all national banks in 1863 — a letter that he credits in his autobiography for his later nomination as Secretary of the Treasury — which says, in part, "Every banker under the national system should feel the reputation of the system in a measure depends upon the manner in which his particular institution is conducted, and that, as far as his influence and management extend, he is responsible for its success; that he is engaged in an experiment which, if successful, will reflect the highest honor upon all who are connected with it, and be of incalculable benefit to the country; but which, if unsuccessful, will be a reproach to its advocates and a calamity to the people."

McCulloch ended the letter: " 'Splendid financiering' is not legitimate banking, and 'splendid financiers' in banking are generally either humbugs or rascals." We now don't characterize our problem bankers as "humbugs" — maybe "rascals" — but Hugh McCulloch's principles are generally the same principles on which banking regulation is performed today.

We bank regulators consider ourselves physicians — but before the members of the American Medical Association here today protest, I stress that I am using "physician" in the secondary sense of the word: one who exerts a remedial or salutary influence. I won't go so far as my former litigator partners who refer to themselves as "brainsurgeons;" however, the analogy between bank regulators and doctors is an apt, though not complete, one. People who don't like doctors are likely to be those who only see a physician once they are seriously ill. Because doctors are scientists and artists — not divine beings — there are limits to what they can do. Sometimes their patients are disappointed doctors cannot perform miracles. Other people, however, consult doctors for advice on how to manage their lifestyles to increase their potential and their performance by doing the right things; diet, exercise, rest. The bank regulator can be the doctor who pulls the plug. Or the regulator can be the health consultant who dispenses advice on increasing vitality and vigor. Like doctors, regulators are trained and prepared to do both, although we clearly prefer the second role. Yet sometimes we are faced with the situation where we can do nothing — even doctors who have highly successful records lose a few from time to time.

What's the condition of our patient, the national banking system? There were 118 bank failures last year, including 30 national banks. This year there are more than 1,000 banks on the FDIC's problem bank list — about a quarter of which are national banks. There are about 15,000 banks in this country. Last year the failure rate of banking as an industry was the lowest of all industry groups. I like to think that supervision had something to do with the 14,000 banks that were not on the "watch" list. Furthermore, the banks that are problem banks are far from being terminal. The fact is that many sick banks do return to full financial health, most often as a result of cooperative efforts between bank management and bank regulators. In 1984, 123 banks moved off our Office's list of banks requiring special supervisory attention. In 1985, another 139 returned to full health. I liken our special supervisory efforts to an intensive care unit and proof that bank regulators' efforts can be effective, even when the banking industry is hurt by economic problems.

Federal bank regulators foster preventive medicine and

nurse the ill back to health — even though we occasionally lose a patient. Furthermore, the OCC is working to create a healthier environment for banks. In the short term, we are looking at ways for well-managed banks that have been severely impacted by "sectorial economic declines" — that's Washington talk for banks that have been burned by high concentrations of lending to one or more troubled industries — we are looking at ways to grant these banks some "first aid" relief until they can rehabilitate themselves.

Those of you who followed the stories in the newspapers last week about our efforts in this regard for agricultural banks know what I am talking about — changes in accounting rules, changes in financial disclosure rules and more flexibility in regulatory treatment of capital levels will provide these banks a bit more room so they can pull themselves through.

In the long run, however, these "first aid" type actions won't be enough. Both common sense and the common interest require that banks "modernize" to meet the needs of changing times. For banks to do so, the legal framework for banking must first be altered to respond to evolving economic realities and to make it logical and equitable. At present, inconsistent policies abound — policies harmful to the banking industry and to the public which it serves. These policies restrict the products banks can offer — I'm sure my friends in securities, insurance, and real estate here today will forgive me for pointing out the obvious. And these policies restrict the places wherein banks can do their business.

The consequences of long-standing restrictions on what banks can do — as well as where they can do it — have become severe in recent years as competitive and economic conditions have evolved. Bank performance has clearly suffered. In 1985, as I said before, 118 commercial banks failed. We expect at least that many in 1986. The total number so far this year totals 19. Seven were national banks. Among the more unpleasant things about my job are the Thursday and Friday afternoon bank closings. An individual bank closing may not be significant for the financial system, but a closing is a traumatic experience for the community in which a bank is located.

Earnings for the industry as a whole, relative to the risks it assumes, have been mediocre. In 1984, 10 percent of the banks lost money, up from less than 3 percent in 1980. For the 14,200 banks with assets under $1 billion, the average return on assets has fallen in each of the last 5 years.

These are not irreversible trends, but unless something is done to reverse them, I am concerned we will end up with a permanently weakened banking industry. As a banking regulator, it is my job to be concerned, and certainly as bankers and consumers of banking services, you should be concerned, too.

As I see it, securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer as broad a menu of products and services as many of their nonbank competitors now offer. These activities would thus eliminate substantial inequities that now prevail among financial services providers. Banks would be able to pursue profit opportunities in lines of business that are an integral part of today's financial services marketplace, services that are every day being offered by nonbank competitors. A wider scope of permitted banking activities would have the effect of offering banks alternative investments as well as new avenues of income, thus providing needed diversification opportunities. The issue should not be "in what activities can banks safely engage?" but rather "what can we do to protect the bank against exposure from the variety of activities in which it does engage?". I think we will find that there are few, if any, activities that cannot safely be combined with banking.

Last year, I read an interesting piece in the *Harvard Law Review* titled: "The Demise of the Bank/Nonbank Distinction: An Argument for Deregulating the Activities of Bank Holding Companies." Although there were things in the essay I disagreed with, these two sentences, I think, give the clearest, yet most concise, summary of the bank modernization argument I've found: "Partial remedies will only lead to continued competitive inequities and political horsetrading among affected industry groups. Such measures will leave bank holding companies without the complete benefits of diversification and consumers without the complete benefits of service and price competition."

The time to make these changes is now. As many of you know, a group of us has been trying to promote the importance of a fully competitive banking industry while providing an adequate amount of supervision to protect safety and soundness.

Scott Caven's letter to you last month said that I would answer three questions. I hope that I've answered many more. Perhaps, given all that I've said, I can now give simple answers to the first three: is the regulatory supervision of banks adequate? For the nearly 5,000 national banks of the country, I can only say I believe so, and nothing I've seen or heard in my 3 months since becoming Comptroller of the Currency leads me to any other conclusion. The OCC's record of helping to nurse sick banks back to health speaks for itself. Should we expect more targeted examinations at Houston's banks? Perhaps. That, in part, depends on whether the energy industry here has hit the bottom of the barrel. To those critics who say that examinations are part of the problem, not a part of

the solution, I reply. You've got to pass to play. Will the nation's banking system remain sound in a deregulated atmosphere? My concern is that the banking system can remain sound only if it is modernized.

Since the current legal framework for banks was established in the 1930s, we've had at least two new generations of people, several generations of computers, and the generating of nonbank competition.

It is time to regenerate the banking system

Statement of Jonathan L. Fiechter, Director, Economic and Policy Analysis Division, before the Senate Committee on Energy and Natural Resources, Washington, D.C., March 25, 1986

Mr. Chairman and members of the Committee, I welcome this opportunity to discuss with you the views of the Office of the Comptroller of the Currency (OCC) concerning the effect of the recent decline in energy prices on commercial banks with oil and gas loans.

The OCC is the primary regulator and supervisor of the national banking system. As of yearend 1985, there were 4,900 national banks, representing one-third of the total number of insured commercial banks and holding approximately 55 percent of total commercial bank assets.

The majority of national banks are in good health. However, unusually volatile economic activity in recent years has caused an increase in the number of problem banks and bank failures. That increase reflects, for the most part, sharp declines in certain sectors of the economy such as agriculture and energy.

This morning I would like to provide a brief summary of problems in the oil and gas sector and describe the effect of these problems on the financial performance of national banks with significant oil and gas loans.

The Problems in the Oil and Gas Sector

As you are well aware, economic conditions in the oil and gas industry have deterioriated rapidly since 1982. The problems are similar to those being experienced in the agricultural sector — inflation has been precipitously followed by deflation. In just the last 10 weeks, the spot price for oil has fallen over 50 percent.

The sharp drop in oil prices is, of course, good news for consumers. To varying degrees, the falling cost of energy means reduced upward pressures on the market prices of all goods and services, a further abatement of inflationary pressures.

The downturn, however, has caused declines in the values of oil and gas equipment and reserves and has reduced cash flows, eroding the capacity of many energy borrowers to meet their debt obligations. Planning under these circumstances and evaluating future financial prospects becomes increasingly difficult, even for the major companies that dominate the industry.

The major oil companies are only about 20 in number, but they control about 80 percent of the oil and 60 percent of the gas reserves in the U.S. These companies are vertically integrated and most of them are financially strong. They typically retain borrowing capacity from a variety of sources, including the commercial paper market. As a result, the banking industry's exposure to those companies is relatively low. The major companies are responding to the weakness of oil prices by restructuring themselves, both financially and operationally.

In contrast to the majors, there are approximately 600 publicly owned companies in the U.S., mostly of small and medium size, and thousands of partnerships and individuals, engaged in operating oil and gas fields. Many of these "independent producers" appeared after the first oil shock in 1973. Due to their smaller base of oil and gas reserves and their need to reinvest continually in the search for new fields, the independents leverage themselves more highly than the majors.

Declining cash flows and reserve values are eroding debt servicing capacity at these independents, which were also hit hard by the back-to-back recessions of 1980 and 1981 to 1982. Falling oil prices and a heavy debt load are forcing many independent producers to cease exploration activities and, in essence, liquidate their existing assets. Some analysts warn that a large number of the independent producing firms nationwide may go out of business in the next 2 years.

The problems of the production companies have, in turn, hurt the service and equipment companies. U.S. drilling rig activity is down to 1,137 active units, compared to 1,950 at the close of 1985 and 4,520 at the end of 1981. The oil service industry is suffering from excess capacity and it is predicted that significant consolidation will occur in the coming months

The only energy-related business to benefit from falling oil prices over the near-term is refining. Its operating margins are growing because the cost of its raw material — crude oil — is falling faster than the price of its output — refined products. Lower output prices signal larger sales of refined products further bolstering the financial position of refiners and their ability to service their debt.

The general decline in the oil and gas industry has also adversely affected individuals and businesses in states whose economies are dependent upon the energy industry. Reduced employment in energy and energy-related industries such as oil-field machinery and petrochemicals, has led to reduced demand for residential and commercial properties and for an array of goods and services. Declines in state revenues have caused reductions in some state-provided services.

The consequences of volatile oil prices go far beyond the U.S. economy. For example, a prolonged drop in the price of oil will depress oil export revenues of the major oil-producing less developed countries (LDCs). While it is not possible to give precise estimates of the overall impact, clearly a reduction in their foreign exchange earnings means a reduced ability of these LDCs to meet international debt service commitments. Although the prospects are uncertain, both the banks and their foreign debtors continue to work diligently at maintaining mutually satisfactory arrangements.

It should be noted, however, that there are benefits to some LDCs resulting from the lower oil prices. Oil-importing LDCs will benefit internally from faster growth and lower inflation. Continued growth in the developed countries will also contribute to rising exports from the LDCs. Finally, lower oil prices contributed to the recent reduction in interest rates. According to Treasury Department estimates, that reduction will save LDCs somewhere in the range of $7 to 9 billion in interest payments on their commercial bank debt.

There appear to be few prospects over the near term for any significant reversal of current trends. Increased oil production by overseas producers, the breakdown of the OPEC cartel, and conservation efforts by consumers and corporations combined with modest economic growth in the industrialized countries may lead to energy prices stabilizing at levels well below those of the early 1980s. As a consequence, the oil and gas industry will have to make major adjustments.

Commercial Bank Exposure to the Oil and Gas Sector

[illegible] the difficult times now faced by energy and energy-dependent [illegible] are also being felt by the banks that extended them credit. We have monitored the effects of the downturn on national banks largely through our special energy-loan data reports that we collect on a quarterly basis. The special report was first collected in December 1984, in response to falling oil and gas prices. A special collection was necessary because data on energy loans are not part of regular bank Call Reports.

The special report is required of national banks with energy loans equal to 25 percent or more of their total capital. Currently, 245 national banks (about 5 percent of all national banks) ranging in size from under $10 million to over $100 billion are filing the special report. The report covers many types of oil and gas lending and includes the volume and credit indicators of the bank's oil and gas loans.

The most recent data on oil and gas exposure are based on the September 30, 1985 report. (Yearend data will not be available until mid-April). The following describes the situation faced by the reporting banks as of September 30 and does not, therefore, reflect the effects of the subsequent drop in energy prices.

Reporting banks have nearly $40 billion in oil and gas loans on their books. I should note that this figure does not capture all of their loans to the oil-exporting LDCs, even though the quality of such loans may be dependent upon conditions in the oil industry. In the following table, we have aggregated the data into five major categories of energy borrowers. Banks report that the largest proportion of loans, 36.8 percent of the total, is extended to independent producers. Loans to firms that drill for oil and gas, and supply equipment and related services are a little over 16 percent of the total. The 20 firms identified as "majors" in the instructions to our report, hold 8.5 percent. Loans to refiners represent 7.6 percent of total oil and gas loans. The remainder is distributed among a collection of companies engaged in the distribution of energy products and other activities related to the oil and gas sector, that we grouped under "other."

Oil and Gas Income Loans of Reporting Banks (September 30, 1985)

Borrower	*Amount outstanding ($ billions)*	*Percent of total outstanding*	*Nonaccruing ($ billions)*	*Percent nonaccruing in category*
Independent producers	$14.6	36.8%	$1.0	6.9%
Drillers & other field servicers	6.4	16.1	1.0	15.6
Major oil cos.	3.4	8.5	—	—
Refiners	3.0	7.6	0.6	20.0
Other	12.3	31.0	0.5	4.0
TOTAL	$39.7	100.0%	$3.1	7.8%

We also have information from the banks on the quality of those loans. As shown in the table, at the end of last September, slightly more than $3 billion, or 7.8 percent of total oil and gas loans, are reported as nonaccruing. By comparison, for all national banks, nonaccruals equal 3 percent for commercial and industrial loans. A loan generally is classified as nonaccruing when a borrower is not meeting or cannot be expected to meet all the repayment conditions of the underlying loan agreement.

Among the borrower categories, loans to refiners and to the oil services companies show the highest percentage of nonaccruing loans, 20 percent, and 15.6 percent, respectively. Comparable percentages for the independents and those in the other category are 6.9 and 4.0 percent, respectively. The majors show virtually no nonaccruing loans.

The special report also enables us to ascertain how those loans are distributed among national banks. For example, nine of our 12 multinational banks hold nearly 58 percent of reported total oil and gas loans, or $23.3 billion. Ninety percent of reported oil and gas loans are held by banks with assets in excess of $1 billion. In terms of location, 76 percent of the reporting banks are based in Kansas, Louisiana, Oklahoma or Texas, and hold 33 percent of the reported loans.

In assessing the effect of oil and gas lending, it is important not to lose sight of the fact that, for most of these banks, such loans are not the only loans in their portfolios, nor are they necessarily the most significant. Generally, banks reporting oil and gas loans hold diversified portfolios. As shown in the following table, among all reporting banks, oil and gas loans represent approximately 9.0 percent of all loans.

Total Loan Composition of Reporting Banks (September 30, 1985)

Loan category	*Amount Outstanding ($ billions)*	*Percent of Total*
Commercial (Net of Oil & Gas)	$ 71 1	16 1%
Commercial real estate	46 0	10 4
Consumer	44.0	10.0
Oil & gas	39.8	9 0
Residential real estate	39 8	9 0
Agricultural	5.4	1 2
Other loans	194 4	44 1
TOTAL	$440 5	100 0%

Additional insight can be provided by examining in somewhat greater detail the financial performance of the reporting banks. For this purpose, because of the great discrepancies among banks in terms of their size and the relative importance of oil and gas loans in their portfolios, it is best to look at median data. Median data are not as sensitive to bias as average data from the presence of extremely large and very small banks.

Among the reporting banks, median assets total $103 million and volatile liabilities (generally short-term uninsured deposits) fund approximately 22 percent of assets compared to 11 percent for all national banks. Earnings and capital at reporting banks are under some pressure. The median primary capital ratio at these banks is 8.0 percent, only slightly below the primary capital ratio of 8.7 percent for other national banks. The median return on assets (ROA) of reporting banks is 0 70 percent, compared to 1.01 percent for other national banks.

In part because of the effect on the Southwest economy of the downturn in the oil and gas industry, many of the banks with oil and gas loans are reporting increased problem credits in other loans. Those include loans to local real estate and to other industries linked to the oil and gas sector. As a result, the median nonaccrual rate on all loans at reporting banks is 2.9 percent, compared to only 0.8 percent for the median of other national banks. Moreover, approximately 18 percent of reporting banks are on the Comptroller's problem bank list, compared to 5 percent of other national banks.

Certain banks in the Southwest with oil and gas loans and loans to other sectors within the region face major earnings challenges in the years ahead. If oil prices should remain below $20 for an extended period of time, we would expect the quality of oil and gas loans to decrease, further reducing earnings and requiring additional loan-loss reserves. The situation, therefore, merits our continued vigilance and sensitivity.

OCC Policy Regarding Oil and Gas Credit Problems at National Banks

Recovery of banks with substantial oil and gas loans depends on a period of increased financial stability within the oil and gas industry. In the interim these banks, with the support and encouragement of their supervisors, are pursuing loan work-out plans in an effort to ease the financial pressures faced by their oil and gas borrowers.

Work-out strategies are a prudent banking practice when based on realistic projections of the borrower's ability to repay their debt. The Office is carefully reviewing bank practices and its own present policies and procedures regarding credit evaluations and loan restructurings. We wish to make certain that the environment is conducive for banks to restructure problem credits of borrowers with reasonable long-term prospects, provided such action is consistent with safe and sound banking practices. This will benefit both banks and their borrowers. We are optimistic that the vast majority of these banks possess the resources, management talent and willingness to work

with their borrowers, and we believe that our efforts are best directed toward finding ways to strengthen and assist them during this difficult period.

Conclusion

In conclusion, I would like to reiterate the comments made by the Comptroller of the Currency on March 11, 1986 before the Senate Banking Committee regarding the need for fundamental changes in our banking statutes. If we are to avoid future problems caused by banks with significant loan concentrations, it is critical to make changes that address the fundamental problems of inadequate opportunities for banks to achieve sufficient asset diversification. Changes that will help meet those objectives include relaxation of product and geographic restrictions. Only then will banks be better able to withstand future downturns in energy or any other sector.

Remarks by Michael Patriarca, Deputy Comptroller for Multinational Banking, before the Institute for Law and Economics, University of Pennsylvania, Philadelphia, Pennsylvania, March 26, 1986

"Refocusing the Debate on Financial Deregulation"

I am pleased to have the opportunity to participate in this discussion of the deregulation of the financial markets. As a regulator in today's environment, it is all too easy to get caught up in the many day-to-day fires that arise. It's not often that we get to take off the fireman's helmet and boots and focus on the larger picture of where the financial services industry is headed.

There is no doubt that, in recent years, the financial services industry has been undergoing unprecedented change. Indeed, that is the one point on which the many observers of the industry agree. The forces of change are those we have heard about so many times: improved and cheaper technology and communication; increasing internationalization; greater sophistication of market participants; changing demographics and savings patterns; and the imagination of Hans Angermueller. The result has been a dramatic change in the financial products available and the way they are offered.

Unfortunately, the legal framework governing the financial services industry has not kept pace with these developments. Although frequently revisited, the laws have remained essentially unchanged since their enactment in the 1930s. As a result of the failure to adapt the laws to the surrounding environment, financial regulation has become fraught with inconsistencies that are difficult to justify and are potentially harmful to the public interest.

Examples abound. Banks are prohibited from engaging in relatively low risk activities such as underwriting highly rated corporate debt, but are permitted to hold long-term loans to unrated borrowers. Banks cannot underwrite commercial paper, but can assume full credit risk by issuing standby letters of credit backing the paper. Banks can compete directly with securities firms and insurance companies abroad but not at home. Nonbanks such as Sears and Ford are permitted to combine insurance, securities, real estate and even commercial activities with insured deposits, but banks are not.

While efforts to reform the financial services laws continue, thus far they have met with little success. I think, that at least in part, this has been due to the way the debate has been structured. The focus has been primarily on the ability to handle risk, with secondary attention to conflicts of interest and concentrations of economic power.

Those against new powers for banks argue that an increase in permissible bank activities would increase the overall exposure of the banking system and, more directly, the potential liability of the deposit insurance fund. They cite the problems banks are facing today as evidence that banks cannot even manage their traditional lines of business effectively. They see new activities as only compounding banks' problems. They also raise the specter of unsettling conflicts of interest and undue concentrations of economic power. To the opponents, the hazards, subtle or otherwise, outweigh the benefits.

Proponents of expanded powers for banks believe that banks need new power to diversify and better withstand economic fluctuations. They argue that because commercial lending has become increasingly risky, new powers will decrease the overall risk in the banking system. They contend that banks cannot survive in the long-term if they are continually forced to sit on the sidelines as their markets evolve away from them.

While there is considerable truth in many of those arguments, I think that, overall, the debate thus far has missed the mark. We must move beyond the questions of what activities and how much risk can safely be permitted. Those questions quickly dissolve into a nonproductive debate among special interests. We need to decide just what, if anything, it is that we are trying to protect and

then devise the necessary insulation. The focus should be not on what financial services should be permitted but rather on how they should be structured. Once we have an appropriate structure in place, the need to debate individual activities should dissipate.

In order to decide what activities may need special protection, it is first useful to define what banking is. That is not an easy task. It is becoming increasingly difficult to distinguish banks from other financial services organizations. Virtually all so-called banking functions are performed, in at least some form, by nonbank competitors. Nevertheless, it is possible to describe, at least in general terms, what banks do. Hans Angermueller offered an excellent discription in his speech last year in Frankfurt. He identified three major functions that modern banks perform: payments processing, risk distribution, and risk retention.

Of those functions, Hans singled out payments processing as the only function in need of special protection and insulation from the risk arising from other bank activities. As he envisioned it, both the asset and liability sides of the payments process would be strictly limited, with all deposits backed by U.S. government securities. All the regulators would have to do is audit the payments processor.

Hans' proposal is a fascinating one. It offers the refreshing prospect of a greatly simplified life for regulators and, at long last, responsibilities commensurate with the pay. In addition, depending on the demand for transaction accounts backed by government securities, it may strike the final blow in addressing the deficit problem.

While we may well be heading in the direction Hans outlined, I doubt that in the immediate future it will be possible to separate so clearly the functions of payment processing, risk distribution, and risk retention. I do believe, however, that it is possible to identify certain core banking activities in need of special protection. Once those activities are identified, then the only impediment to expanding activities is to determine that the core activities are adequately insulated.

While there is room for considerable debate on the core banking activities that need to be protected, the two I would focus on are the payments system and the offering of insured deposits. Public confidence in the payments system is essential to the smooth flow of commerce. In addition, safe deposit accounts have become an established part of our financial culture. While alternatives such as money market funds and direct investment in government securities exist and have even gained ground, the bank account has remained a mainstay for the average member of the public looking for a safe, liquid asset.

Having identified the core banking activities we want to protect, the key issue on bank powers becomes what limits should be placed on the relationship between the core banking functions and other bank activities to prevent risk to the core. In addressing that issue, it is important to consider the ways that losses from a variety of activities could affect the core functions. I see three possible risks. As a mnemonic device, I'll call them personal, perceived and purloined.

By personal I mean the generally traditional risk of loss undertaken by banks when they invest in loans or anything else for their own account. The risks are personal to the bank; the bank is legally liable for the losses incurred and the investment or activity has nothing to do with the business of any of its affiliates engaged in nonbanking functions.

By perceived risks to the core function, I refer to the risk that the public will associate problems in the nonbanking activities with the bank and that liquidity pressures and disruption of the payments system might result.

By purloined risk I mean one that management takes away from another piece of the organization and places in the bank to promote the overall interest of the organization. For example, although not legally required to do so, management may decide to bail out a subsidiary or buy back an asset in order to protect the organization's reputation.

A number of ways have been suggested to insulate the core banking activities from losses emanating from other activities. Perhaps the most widely considered is the bank holding company model. That approach, however, does both too much and too little. Forcing a holding company structure limits an organization's flexibility and may make expansion prohibitively expensive for smaller banks that are not part of a holding company. More importantly, however, the proposal would only insulate the core banking function from the explicit liability, or "personal risks," from other activities; it does not address the potential liability from management discretion to assume losses, what I've called the purloined risk. The EPIC failure last summer illustrated just how creatively savvy management can move losses around a holding company structure and expose the insured deposits to risk. The bank holding company model also does not entirely deal with the possibility that the public will perceive that the core bank will assume the liabilities of other activities.

A better approach would be to impose controls, designed to address all three types of risk, on the relationship between the core banking activities and other activities. For example, the organization could be prohibited from putting capital into additional activities unless the core banking activities have sufficient capital to meet supervisory

[illegible] the new posed by [illegible] He [illegible] such as those [illegible] existing [illegible] transactions with [illegible] to address [illegible] management [illegible].

A number of [illegible] banks' exposure from expanded [illegible] Creative and suspicious minds [illegible] sources of risk to the core banking functions and means of controlling them. That is where I believe the current debate should be focused. Once we move forward on deciding how to provide adequate [illegible] for the core banking functions, I doubt that we will find few, if any, activities that cannot safely be combined with banking.

Whatever we find, however, it is important to address the issue. If we do not, the financial services industry will continue to evolve according to legal happenstance. While bank activities remain limited, other segments of the financial services industry will remain free to expand. Adequate safeguards will not be in place to address the overall public interest. We will be left to fighting day-to-day fires, without the benefits of a comprehensive structure for addressing the problems that are certain to arise.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Association of Reserve City Bankers, Phoenix, Arizona, April 7, 1986

You know as well as I do that banking has its problems — that the condition of the industry is not as good as it could be. The theme of this convention focuses on one of these problems: the need for greater profitability. The U.S. banker finds himself all too often without profit in his own land. The critics of banking doubt that the condition will change and they conclude that, as a result, banking won't be going anywhere.

They fail to take into account one very important factor in the equation, however: bankers such as yourselves, bankers who don't wait in expectation for profits to appear but who, instead, seek profits in your own land. What role does the federal bank regulator — in particular, the Comptroller of the Currency — have to play in this search?

"Without public confidence, individuals would not entrust banks with their savings, nor, without such confidence, could the [illegible] function effectively as a payments medium. One purpose of bank regulation is to maintain this essential confidence in the banking system by sustaining its solvency and liquidity. There is, however, another and equally significant public objective which must be [illegible] bank regulation. [illegible] bank regulation [illegible] the provision of adequate [illegible] discretionary power to adapt their operations [illegible] to [illegible] regulation [illegible] proper scope [illegible] and innovation."

[illegible]

Those of you with long memories here today know that those words did not originate with me. They come from the introduction to the 101st annual report of the Comptroller of the Currency — the annual report for 1963.

Mark Twain once said that history does not repeat itself, but sometimes it rhymes. Sometimes it doesn't even do that, but in this case — banking's condition in the early 1960s and its condition today — we see the historical functional equivalent of Lord Byron's *Don Juan*, one of the longer rhyming epics in the English language, with Alexander Pope's *The Rape of the Lock* thrown in for good measure.

The Comptroller during the early 1960s was Jim Saxon. Many of you, I'm sure, remember him personally. And you'll remember that Jim Saxon was convinced that the risks generated from banks being unduly constrained by legislation from the 1930s would be far greater than the risks engendered by changing the legal and regulatory framework for banking to bring it into line with economic, competitive and technological realities. During Jim Saxon's years as Comptroller there was much discussion of removing hindrances to competition between banks and nonbanks — only in those days the nonbanks were savings and loan associations, mutual savings banks and credit unions. Those institutions were waging vigorous campaigns to capture both the pocketbooks and the hearts of American households. Their strategy was to stress their consumer orientation.

Twenty-five years ago, Comptroller Saxon ran into considerable opposition in his efforts to reduce the legal inequities the national bank system faced at the time. Yet restrictive controls were eased by making substantial changes in banking regulation. Today those actions — [illegible] national banks to engage in

direct-lease financing of personal property, and to act as agents for the issuance of insurance incident to banking transactions — have a quaint, almost trivial, ring. At the time they were taken, however, they were almost revolutionary.

Before Jim Saxon came along, bank regulators were often seen as — and often were — pedantic and dull puritanical types who seemed bent on maintaining a status quo that slowed the growth of the institutions they were regulating. We have progressed. Today we're seen as pedantic and dull puritanical types intent on maintaining the vitality of the banking system. Ultimately, that means ensuring that banking has the opportunity to remain profitable. If that goal entails altering the status quo, so be it. The Office of the Comptroller of the Currency, as you well know, does not stop at accepting change reluctantly — it promotes change when it is necessary. And this Comptroller follows in the tradition of Jim Saxon.

At the same time, we are as aware now as Comptroller Saxon was two decades ago that the maintenance of public confidence — in individual institutions and in the system as a whole — day by day — is also our charge. The real dual banking regulatory system in this country is one of function, not form: trying to supervise banks in a way that they will attain the dual goals of growth and stability at the same time, over time. In theory, these two goals are complementary — they should never conflict. In the day-to-day world, they sometimes do.

Let's consider, for a few moments, bank supervision in light of this convention's theme — the search for profitability. Certainly one of the hottest ideas going around now in the search for profitability is asset diversification. In the fast-moving world of finance and economics, it is already an old idea. As a defensive measure, a safeguard, investment diversification goes back at least to the 1930s in Britain. Today, however, asset diversification is getting new attention as a device to help U.S. banks of all sizes, both defensively and as a money-making endeavor.

Vehicles for diversification include the purchase/sale of whole loans; loan participations, including "loan strips"; and security interests in pools of mortgages, municipal securities and consumer receivables. Again, these are all old ideas or new twists on old ideas, which in finance means that they date from at least five years ago. However, pooling commercial loans has not occurred to any significant degree. In theory, pooling commercial loans appears to be a great idea.

Like restoring a ramshackle ranch and turning it into a weekend retreat, the idea has great allure if the bugs can be worked out. As many of my friends in Texas who have tried such restoration will tell you, for every bug you see there are ten more working on becoming twenty more.

To date, some of the bugs to be worked out in pooling commercial loans are differences among banks in such areas as documentation and basic lending standards. These differences make the creation of a standardized product — such as GNMA's — difficult.

Scenting a need for action, not to mention profit, private initiative has reared its head. firms are working at solving the standardization problem. For example, one firm seeks to offer a total package wherein banks sell commercial loans to buy and sell security interests in a commercial loan pool. Another has developed a loan-pricing model that bankers and others can use to mark commercial and other loans to market, making it easier to identify commercial loans with common characteristics.

I hesitate to make the analogy, but perhaps someday if efforts such as these are successful, participations in commercial loan pools may be common under terms so similar as to make them almost a commodity: a product as undifferentiated as Johnny Carson reruns, Barry Manilow albums, Rocky movies or recent MBA graduates.

Commercial loan pooling promises many advantages — but there are difficulties in realizing them.

If properly undertaken, loan pooling could enable banks to reduce year-to-year variation in net loan losses due to changing conditions facing individual industries and borrowers. Many banks facing industry-specific loan problems are in unit banking states and thus have little ability to diversify through their own lending. In other words, the technique would offer the opportunity to transform the traditional roller-coaster ride of commercial lending into something more like an elevator ride — perhaps this would be not quite as exciting, but there would be many more opportunities to get off going up and down. Furthermore, it could provide banks facing a strong loan demand an opportunity to satisfy that demand without permanently booking assets and facing a possible need to increase capital. The result could be increased efficiency in the banking system, and could certainly parallel banking's traditional role as a financial intermediary or facilitator. At the same time, it could provide banks making good loans an opportunity to sell them in a manner that could reduce the cost of funds or raise fee income — and it could provide banks serving depressed, industry specific, geographic areas an opportunity to invest in a relatively high-income alternative to federal funds and government securities. In other words, commercial loan pooling could benefit both parties to the transaction which is what our system is all about

So much for the pluses — what about the minuses? We, as you all well know, the securities industry and others are sensitive to possible violations of the Glass-Steagall Act of any pooling arrangement creating the potential

for expensive litigation. In our legal system it now seems that everyone is entitled to his decade in court. And borrower resistance to "parcelling out" of loans is developing in areas other than commercial loans. We could expect the same thing to happen if commercial loans are pooled. After all, it is a big change in traditional relationships, and banks have been big in selling themselves to customers as traditional institutions who value relationships.

As bank supervisors, we at the OCC, of course, have an interest in those difficulties and in other issues. We have an interest in evaluating the impact of commercial loan pooling — and asset diversification in general — on net earnings, liquidity, adequacy of capital and financial condition generally of a bank's involvement in any type of asset diversification. Furthermore, banks as buyers of securities issued by intermediaries also face large administrative outlays — a fact that supervisors must take into account. There is a well-founded concern of federal regulators that bankers have a firm grasp of the credit risk posed by the assets they hold. Evaluating the credit risk posed by security interests in loan pools to the satisfaction of regulators could mean evaluating the credit risk of every loan in the pool.

As many of you well know, national banks may hold for their own accounts only investment securities that are actively traded or otherwise declared eligible for purchase by the OCC. Among the deals done thus far in the field of asset-based financing, only those involving home mortgages and possessing some form of government guarantee have produced securities that are traded in a secondary market, thereby meeting the liquidity test. The language of the regulation involved is so limiting that it is now being amended to permit explicitly a relatively new asset-backed debt security, collateralized mortgage obligations. There are other regulatory constraints now in effect but I will refrain from discussing them in detail.

The point I want to make is that the issue is as complex from a regulatory point of view as it is from the business point of view. Complexity, however, hasn't blocked bankers from considering asset-backed securities. And complexity will not block regulatory consideration of the implications of changing regulatory practices and constraints as they apply to asset-backed securities. We at the OCC will keep an open mind during that consideration — just as we will keep in mind our dual charge to ensure public confidence in your institutions and to maintain the vitality of the banking system. We are well aware that new and innovative forms of asset diversification, including commercial loan pooling, may play just as important a role in the future of banking as service diversification must play. For those new and innovative forms to win the regulatory nod, however, we must conclude that they do not work to the detriment of an institution's stability while they add to its profitability.

And I assure you that, in coming to a judgment, we won't make the same kind of snap decision that a Federal surveyor made in his report to Congress after he surveyed the Phoenix area in 1858. He concluded: "The region is altogether valueless. After entering it, there is nothing to do but leave."

What he saw as shimmering desert, we enjoy — as you have enjoyed over the last few days — as a verdant oasis. He neglected to take one thing into account: human ingenuity. At the OCC we try to always keep human ingenuity in our thoughts — although I am sure some of you will interpret that as a warning instead of a promise.

Statement of John F. Downey, Chief National Bank Examiner, before the Subcommittee on Conservation, Credit, and Rural Development of the House Committee on Agriculture, Washington, D.C., April 9, 1986

Mr Chairman and members of the Subcommittee, I welcome this opportunity to appear before you to discuss the problems being experienced by agricultural banks. As you are well aware, the American agricultural economy continues to experience severe difficulties. Farm incomes and asset values, particularly the price of farmland, continue to decline, weakening the financial condition of highly leveraged farmers and putting pressures on agricultural lenders. The problems faced by agricultural banks will ultimately be eliminated only when the agricultural problem itself is eliminated — a process that may take several years, depending among other things, on the future strength of export markets and the level of real interest rates.

This afternoon, I would like to provide the Subcommittee with some background information on agricultural banks and describe what actions our Office is taking to assist agricultural banks in making needed adjustments. I will then mention additional measures that could be taken by the Congress, the states, and the banks themselves to ensure that this adjustment is as smooth and painless

as possible for both lenders and farm borrowers. Finally, I will comment upon relevant aspects of H.R. 3868 and H.R. 4267.

Profile of Agricultural Banks

Agricultural banks, defined by this Office as banks with over 25 percent of gross loans in agricultural credits, number 3,900 — roughly a quarter of all U.S. commercial banks. These banks hold about half of the $47 billion in commercial bank credit to the farm sector, and their total assets constitute approximately 5 percent of the total $2.6 trillion in commercial bank assets. They are located mostly in the midwestern states. The median agricultural bank is only one-half the size of the median nonagricultural bank.

Until recently, agricultural banks generally out-performed comparably-sized nonagricultural banks. Due to their heavy concentration in farm loans and the growing credit quality problems in that sector, however, the condition of many agricultural banks has deteriorated in recent years.

As of December 1985, there were 810 national agricultural banks. Last year, 178 of these banks reported losses, compared with 134 at yearend 1984 and 78 at yearend 1983. The median ratio of classified assets to gross capital funds at all national agricultural banks reached 52 percent as of September 1985 (the most recent date for which data are available), up from 39 percent 1 year earlier and 30 percent 2 years earlier. In contrast, the median ratio for nonagricultural banks rose only slightly over the past 2 years from 19 percent in September 1983 to 24 percent in September 1985.

The deteriorating condition of many national agricultural banks is also shown by their increased presence among the ranks of problem and failed banks. As of yearend 1982, only 1 percent of national agricultural banks were problem banks (*i.e.*, had CAMEL[1] ratings of 4 or 5). However, as of December 1985, 13 percent of all national agricultural banks, or 103, were problem institutions. Of the 30 national banks that failed in 1985, 10 were agricultural banks. Five of the 8 national banks that failed in the first quarter of this year were agricultural banks.

Despite the serious problems facing many agricultural banks, we believe that a majority have sound prospects for the future. Even with large losses and the likelihood that these loans will continue in the coming months, agricultural banks remain basically strong. Many of these banks possess capable management who have adapted and adhered to sound lending policies.

[1]The CAMEL rating is a summary of the condition, on a scale of 1 to 5, of a bank at the time of examination. It is based on assessments of capital, assets, management, earnings and liquidity

As a result, most agricultural banks hold significant amounts of capital and are continuing to generate earnings that equal or exceed those of other comparably sized commercial banks. As of December 1985, 93 percent of national agricultural banks reported capital in excess of 7 percent of assets; 57 percent had capital in excess of 9 percent. While 22 percent of national agricultural banks reported year end losses, almost 35 percent of all national agricultural banks reported a return on assets (ROA) of 1 percent or greater.

Our intention in providing these statistics is not to suggest that there is no problem. For the banks that fail, the consequences are traumatic — for their employees, their shareholders, and the communities they serve. We are optimistic, however, that the bulk of the agricultural banking sector possesses the resources, management talent, and willingness to work with their borrowers to achieve mutually satisfactory solutions.

The OCC's Actions

It is our view that the most beneficial thing we can do is to ensure that banks have the opportunity and incentive to work with their borrowers to achieve mutually satisfactory loan work-out plans. It is only by identifying their losses and restructuring credits to reduce farmers' debt burdens that agricultural banks will be able to put their problems behind them and improve the quality of their portfolios.

Although such structuring would be in the long-run best interest of banks and their borrowers, many banks have been reluctant to write down loans or to grant other concessions to borrowers because this might reduce their capital levels. Banks fear that reduced capital levels are unacceptable to the bank regulators. In addition, they are reluctant to reduce capital because it is the basis for determining the amount that a bank can loan to any one borrower. Lower capital levels would result in lower lending limits.

In response to these concerns, this Office, in conjunction with the Federal Reserve Board and the Federal Deposit Insurance Corporation, recently decided to institute supervisory policies that would give banks the tools and the encouragement to effectuate long-term restructuring of problem credits during this difficult but transitional period The agencies released a Joint Policy Statement on March 11, 1986, broadly outlining these policies

This Office subsequently issued Banking Circular 212 which explains how the Comptroller of the Currency is implementing the Joint Policy Statement The Circular became effective on March 28, 1986, and will terminate on January 1, 1993 The Circular covers five essential points

- First, we reiterated our previous encouragement

that banks enter into work-out plans with their agricultural borrowers who are experiencing temporary difficulties. Lenders may often find that their most prudent policy is to restructure loan terms rather than take more precipitous action such as foreclosure

- Second, we again provided banks with a summary and examples of the June 1977 rule regarding the proper accounting of restructured debts. Under the Statement of Financial Accounting Standards No. 15, a bank need not recognize any loss on a restructured loan when the expected payments, principal and interest combined, equal or exceed the loan amount on the bank's books prior to the restructuring.
- Third, we are modifying the reporting requirements for restructured loans. Previously, restructured loans paid in accordance with the modified terms were reported on a schedule with problem loans. This schedule was available to the public. We are amending the schedule so that only restructured loans not being paid in accordance with the modified terms are categorized with other problem loans.
- Fourth, we instituted a capital forbearance policy. Under this policy, well-managed banks whose capital falls below historical levels as a result of problems in the agricultural sector, will be given up to 7 years to restore capital. This policy is designed to help national banks that have sufficient capital to absorb loan losses and replenish capital. Capital forbearance formally acknowledges that capital should be used during periods of unusually heavy loan losses and that capital replenishment takes time.
- Fifth, we are amending the rules limiting the size of loans a bank can make to a single borrower. National banks were able to lend to any individual an amount no greater than 15 percent of the bank's capital under a general lending limit. For banks suffering agricultural losses, we are increasing the lending limit to a maximum of 20 percent. Thus, a bank whose capital declines as much as 25 percent due to farm loan losses will still be able to keep its old lending limit in order to meet the credit needs of its customers.

A copy of our Banking Circular is also attached to this statement for your information

We believe these policies will help basically sound, well-managed banks through a difficult but transitional period. These policies should prove beneficial not only to agricultural banks, but to farmers and other customers as well. And finally, the policies have preserved the integrity of bank financial statements, which is vital to assuring confidence in the banking system

The Need For Federal and State Actions

Although we believe that our capital forbearance and related policies will help agricultural banks to deal with their current problems, these policies are not a panacea. They do nothing to mitigate the underlying causes of problems faced by agricultural banks, e.g., the downturn in the agricultural economy.

In our view, the most important thing agricultural banks can do to improve their ability to withstand future downturns in the farm sector is to diversify their assets. A high concentration of loans to, or dependence upon, a particular industry is generally an imprudent lending strategy because it make banks extremely vulnerable to that industry's performance. Diversification is currently hindered, however, by restrictions on geographic expansion and on loan sales and purchases.

We have encouraged states with restrictive intra-state branching laws to consider changing these laws to open new opportunities to agricultural banks for lending. We have also encouraged Congress to consider extending and amending the emergency acquisition provisions of the Garn-St Germain Act of 1982 by allowing emergency acquisitions of a failing bank before it has been declared insolvent, but reducing the asset size of an eligible failing bank and by allowing the acquisition of the entire holding company of a failing bank rather than just the bank. Such liberalizations would increase the options available to bank regulators to prevent and resolve bank failures. These actions would also help ensure the continued availability of banking services to farm communities.

States would also be encouraged to remove prohibitions on farm ownership that limit the market for farmland. The OCC has responded to this problem by generally allowing national banks to hold farmland acquired through foreclosures for as long as 10 years, the maximum allowed by law. As a result, these banks are not forced to put real estate on the market at an inopportune time, which could further depress farmland prices.

Diversification of assets is particularly difficult for those banks in states where agriculture and related industries dominate the economy. The larger regional and multinational banks can originate loans nationwide and thereby lend to a variety of industries, but it is virtually impossible for smaller banks to achieve the same levels of diversification.

Although the sale of loan pool participations is one way for banks to diversify their loan portfolios, there are some obstacles that particularly impact the smaller community banks. Glass-Steagall prohibitions against commercial bank underwriting of securities mean that loan pool participations must be carefully structured. They tend to be

available only in relatively large denominations — usually $1 million or larger. Also, they can have only a limited number of potential acquirers. Finally, acquiring banks are required to receive and analyze extensive documentation associated with each participation. Collectively, these features of loan pool participations limit their usefulness for smaller banks.

Specific authorization by Congress for commercial bank underwriting of interests in pools of bank loans, either by private placement or by public offering, could significantly enhance the availability of loan sales for small banks and thereby assist in the diversification of portfolios.

Action Needed by Agricultural Banks

While actions by the Congress, the states, and bank supervisors will certainly ease the transition agricultural banks need to undergo, their long-term survival requires that agricultural banks themselves take several actions.

We have issued guidelines requesting agricultural banks to review the effectiveness of their lending policies. Unfortunately, a number still lack adequate agricultural lending policies. In such cases, we stress that they should be established or revised to include:

- analyzing each borrower's cash flow and profitability from production before the loan is made;
- establishing and maintaining accurate and realistic appraisals on all collateral supporting agricultural loans;
- identifying repayment sources and establishing specific repayment terms for various categories of agricultural loans; and
- building a cushion in collateral values and anticipated cash flows to protect against a downturn in such values or cash flows.

Agricultural banks that ensure that accurate risk assessment and prudent collection policies and practices are in place will be less vulnerable to deteriorating loan quality, even during economic downturns.

Comments on Proposed Bills

You also requested our comments on two proposed bills, H.R. 3868 and Titles II and III of H.R. 4267. Although these bills may create additional and inappropriate costs to the Federal government, our specific comments will relate only to the effect these bills would have on national banks. We will defer to the Department of Agriculture on questions relating to the need for these proposed laws.

H.R. 3868:

H.R. 3868 would provide interest rate subsidies for qualified agricultural loans, Farmers Home Administration guarantees for restructured agricultural loans, and would create an interagency task force to assist commercial agricultural banks and their borrowers in working through the present economic problems. The task force would review existing policies and consider meaningful alternatives including regulatory, statutory, and accounting changes, in order to facilitate commercial bank lending to agriculture in the future.

This Office favors voluntary programs that augment a farm lender's ability to grant concessions and thereby improve the ability of troubled borrowers to service their debts. Voluntary principal and interest rate buydown programs increase the likelihood that a satisfactory workout can be arranged. Accordingly, we have supported the existing Farmers Home Administration Debt Adjustment Program in which the government guarantees renegotiated loans on which a bank has written down the principal and/or reduced interest charges sufficiently for the borrower to service his debt.

H.R. 3868 contains some provisions that we believe deserve reconsideration, however. Section 203(a), for example, would limit the rate of interest on restructured loans at the end of the interest rate buydown period to the rate the bank would charge on loans with comparable maturities for similar purposes. This provision would prevent lenders from charging an interest rate that reflects the appropriate risks of repayment and may force lenders to restructure troubled loans around that rate to the detriment of borrowers. H.R. 3868 also appears to limit the repayment period to no less than the original maturity of the loan being restructured. This provision would preclude lenders from restructuring loans to have shorter maturities accompanied by significantly lower interest rates. The program is more likely to be effective if lenders and borrowers are free to negotiate a maturity that matches the circumstances, rather than being forced to match statutory limitations.

The bill also provides that guaranteed loans may not be transferred. We believe that this limitation may deter banks from entering the program because they would not be able to sell the loans to free-up funds to make additional loans. As mentioned earlier, we are hopeful that ways can be found to enable banks to more easily sell loans or loan pool participations so that they can both diversify and continue to meet the needs of local customers. The bank on transferability appears to run counter to these goals

H.R. 3868 also contains requirements for program audits and monitoring of lenders by both states and the Department of Agriculture. Of particular concern to us is Section 203(f), which would grant the relevant state agency the authority to monitor compliance by lenders, including national banks. The result would be a duplication of

effort by the state agency and the Comptroller's Office and an increased regulatory burden on the banks. Historically, Congress has preserved the exclusive jurisdiction of the Comptroller's Office over national banks regardless of the subject matter. Should H.R. 3868 move forward, we would hope that you will amend this section to eliminate the state monitoring authority with respect to national banks.

We strongly object to the proposed new Section 351(c)(6) of the Consolidated Farm and Rural Development Act, which requires the loss portion of a restructured loan to be amortized on a bank's financial statements over a 10-year period. If enacted, the provision would distort the true condition of banks, undermining public confidence in the integrity of the banking system as a whole. We believe the actions we have taken, granting capital forbearance and lending limit relief, provide the same benefits as loss deferral without creating this adverse side effect.

Finally, we do not believe, as proposed in Title IV of H.R. 3868, that it is necessary or desirable to establish by statute an interagency task force to assist agricultural lenders. The financial institution regulatory agencies are currently working together on the problems of institutions lending to the agricultural sector. In fact, the recent joint actions taken by the agencies already address those areas that H.R. 3868 proposes to be addressed by an interagency task force.

H.R. 4267:

Title II of H.R. 4267 would provide guarantees for restructured agricultural loans. As just indicated, we encourage the development of voluntary principal and interest rate buydown programs. However, Title II of H.R. 4267 contains a provision that we believe may limit its effectiveness. Under Section 201 of the bill, the Consolidated Farm and Rural Development Act would be amended to limit the interest rate on a restructured, guaranteed loan to the bank's current cost of funds. We believe that banks may not want to participate in the program if their ability to recover administrative expenses and overhead and their ability to generate a positive rate of return is impaired. As we understand the restructuring provisions and the subsidy arrangement, banks will have already taken a 9 percent loss in connection with obtaining the guarantee.

Title III of H.R. 4267 would permit the amortization of qualified agricultural loan losses and losses resulting from reappraised agricultural real estate or other property over an extended period of not more than 10 years. We are opposed to the loan loss amortization provisions embodied in this bill for the reasons previously discussed.

Conclusions

The current difficulties being experienced by agricultural banks reflect farmers' severe financial stress. It is unrealistic to expect that the agricultural sector will return to the prosperity enjoyed during the 1970s any time in the foreseeable future. Consequently, the agricultural economy, including banks operating in that economy, will have to adjust to a lower level of farm income and to reduced asset values more in line with prospective income.

We believe the regulatory policies contained in our recent actions will provide agricultural banks with incentives and the time needed to address asset quality in a thoughtful and orderly manner, meeting the needs of the borrowers they serve, and helping to rehabilitate both the borrowers and the bank. These policies will, I believe, also preserve principles important to bank regulation and supervision and to the maintenance of public confidence in banking institutions.

I am confident that agricultural bank problems can be resolved through the cooperative efforts of banks, their supervisors, state government and Congress. Although H.R. 3868 and H.R. 4267 are examples of possible actions intended to assist lenders and farm borrowers through the downturn in the agricultural economy, we would oppose them in their current form. We stand ready, however, to work with you in developing more appropriate legislative measures.

Capital Forbearance Policies

Banking Circular 212
March 28, 1986

Subject: Capital Forbearance Policies

Contents:

I. INTRODUCTION

The last few years have proved to be a particularly difficult period for farm and oil and gas banks and their borrowers. Many farmers and others dependent on the agricultural economy have experienced, and continue to experience, financial difficulties. During this period, an historically large number of farm banks have failed and

an even larger number have developed serious problems. Similarly, volatile energy prices have adversely impacted oil and gas borrowers and the banks that lend heavily to them. In light of these problems, the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation believe it appropriate to employ supervisory policies that will support basically sound, well-managed banks in weathering what is expected to be a difficult but transitional period. In connection with their recent testimony before Congress, the agencies released a Joint Policy Statement on March 11, 1986, outlining these policies. Although the statement refers only to agricultural banks, it has been extended to oil and gas banks by subsequent agreement among the agencies. A copy of the Joint Policy Statement is attached.

This circular explains how the Office of the Comptroller of the Currency will implement the Joint Policy Statement. Implementation will be accomplished by encouraging banks to work with their troubled agricultural and oil and gas borrowers; by establishing a capital forbearance policy; by encouraging the use of generally accepted accounting principles which may permit loan restructurings without loss recognition; by changes to Call Reports; and by relaxing lending limits.

The Congress is considering legislation covering capital forbearance, Call Reports, and lending limits, among other matters. Modification of this Circular may be required if legislation is enacted.

Certain provisions contained in this Circular are subject to approval by the Office of Management and Budget, where they are currently under review.

II. BANK RELATIONSHIPS WITH TROUBLED BORROWERS

Problems in the agricultural economy have directly affected the banks that provide financing for the agricultural sector. Severe financial pressures on borrowers dependent on the agricultural economy have resulted in an increase in loan delinquencies. As conditions have worsened, borrowers increasingly fear foreclosure, while bankers are increasingly concerned about supervisory actions that may result from reduction in their banks' capital as a consequence of loan losses.

In response to this situation, the OCC has encouraged bankers to develop work-out strategies with their agricultural borrowers. In a joint statement on April 23, 1985, the Federal bank regulatory agencies reiterated their policy of encouraging banks to enter into work-out plans with agricultural borrowers who are experiencing temporary difficulties in meeting their debt service obligations. The OCC renews that encouragement now.

Although OCC examiners will point out to management the weaknesses that may be present in loans the OCC does not require foreclosure on collateral or the acceleration of the maturity of loans. The OCC recognizes that downturns in certain sectors of the economy are expected to be transitory. Therefore, lenders may find that the most prudent policy is to restructure the loan terms rather than to take more precipitous action such as foreclosure

The volatility in energy prices has created a similar situation between oil and gas companies and the banks that lend to them. Accordingly, the OCC also encourages banks to develop appropriate work-out strategies with their oil and gas borrowers.

III. CAPITAL FORBEARANCE POLICY

Despite the difficult problems facing many agricultural and oil and gas banks, the OCC believes that most have sound prospects for the future. Even with the losses suffered by these banks and the likelihood that losses will continue to occur, these banks retain substantial strength. Many of them possess strong capital to asset ratios and capable management that adheres to sound lending policies.

Accordingly, the OCC has adopted, effective immediately, a capital forbearance policy which will benefit basically well-managed banks that have sufficient capital to absorb loan losses and reasonable prospects to replenish capital. Capital forbearance formally acknowledges that capital should be used during periods of unusually heavy loan losses and that capital replenishment takes time. The capital forbearance policy should provide banks greater incentives to recognize promptly losses arising in their loan portfolios, work with borrowers to restructure loans, and rebuild bank capital in an orderly manner. This capital forbearance policy is temporary and will terminate on January 1, 1993.

Under the capital forbearance policy, the OCC will not take administrative action to enforce the minimum capital requirements in 12 CFR Part 3 against a bank whose primary capital ratio declines below 5½ percent to no less than 4 percent before December 31, 1987, provided the bank meets the following qualifications and conditions

1. The bank must meet the definition of an agricultural/oil and gas bank. An agricultural/oil and gas bank is one whose agricultural and oil and gas loans, in the aggregate, are equal to or greater than 25 percent of the bank's total loans and leases, net of unearned income. Agricultural loans are defined as loans secured by farmland and loans to finance agricultural production and other loans to farmers from Schedule C on the bank's Call Report. A list of the kinds of loans qualifying as oil and gas loans for purposes of the capital forbearance policy is attached as Exhibit A

2. The weakened capital position of the bank must be largely the result of problems in the agricultural and/or oil and gas sectors of the economy and not due to excessive bank operating expenses, insider abuse, excessive dividends or actions taken solely for the purpose of qualifying for capital forbearance.

3. The bank must be well managed. In reaching determinations about the quality of a bank's management, the OCC will take into account existing management's past record of performance in guiding the bank, including its timely recognition of loan losses and other weaknesses. The OCC will also consider the bank's past compliance with any agreements with, commitments to, or orders from the OCC. Further, the OCC will consider the capability of management to develop and implement an acceptable rehabilitative plan.

4. The bank must submit an acceptable plan for restoring capital by January 1, 1993 to the minimums required by 12 CFR Part 3. The plan should describe the means and schedule by which capital will be increased. This plan should also specifically address reduced dividend levels; limitations on the compensation of directors, executive officers or individuals having a controlling interest; limits on asset growth; and payments for services or products furnished by affiliated companies.* The plan should provide for improvement in the bank's primary capital ratio on a continuous or periodic basis from earnings, capital injections, asset shrinkage, or a combination thereof. A plan which projects no significant improvement in capital until near the end of the forbearance period will not normally be acceptable. The OCC may require modifications to a bank's plan in order for the bank to receive, or to continue to receive, capital forbearance.

5. The bank must commit to file annual progress reports regarding compliance with its capital plan. Depending on an individual bank's progress, more frequent reports may be required. Moreover, any contemplated actions that would represent a material variance from the capital plan must be submitted to the OCC for review.

Banks with capital below the minimum established in 12 CFR Part 3 seeking capital forbearance must file a written request no later than December 31, 1987 with the Deputy Comptroller for the District in which the bank is located. The request must include a certification and explanation of its eligibility to participate (covering items 1 through 3 above), its plan, and its commitment to file the required reports. Capital forbearance will be considered granted unless, within 60 days of receipt of the request, the District notifies the bank that its request has been denied or that additional information or time is required. Pursuant to 12 CFR 3.8, during the period covered by this capital forbearance policy, a bank granted capital forbearance and in compliance with an acceptable capital plan will not be considered in violation of the minimum capital ratios required by 12 CFR 3.6.

Upon the written request of an agricultural/oil and gas bank and at the discretion of the OCC, the capital forbearance policy may be extended, in special circumstances, to a bank with a primary capital ratio lower than 4 percent. In addition, the OCC will consider extending its capital forbearance policy to banks which do not meet the above definition of an agricultural/oil and gas bank, but nevertheless are suffering capital declines caused by problems in the agricultural or oil and gas sectors. Capital forbearance may be extended to these banks only on a case-by-case basis upon written request and explanation submitted to the District Deputy Comptroller. In both circumstances, capital forbearance will not be considered granted until the District so notifies the bank.

The OCC deserves the right to terminate capital forbearance for banks engaged in unsafe or unsound or other objectionable practices, or if it becomes apparent to the OCC that the bank is unwilling or unable to comply with an acceptable capital plan. Capital forbearance, once granted, will not be terminated solely on the basis of subsequent changes in a bank's percentage of loans to agricultural and/or oil and gas borrowers.

Some banks are at present subject to capital requirements higher than those specified in 12 CFR 3 by a capital directive, an effective order issued pursuant to 12 USC 1818, or a formal agreement between a bank and the OCC. Banks which have experienced agricultural or oil and gas losses and which are subject to a capital ratio higher than the minimums set forth in 12 CFR 3.6 may request a modification from the OCC. The OCC will reconsider the higher requirement in light of the capital forbearance policy.

In addition, the OCC capital forbearance policy extends to well-managed banks whose primary capital ratios decline, as a result of problems in the agricultural or oil and gas sectors of the economy, from historic levels to levels above the 5½ percent minimum primary capital ratio. These banks do not have to apply for capital forbearance, and the OCC will not require them to take any action solely on the basis of that decline in capital. These banks will be expected to maintain adequate capital for the nature of their operations and, if appropriate, to increase their capital over time back to historic levels. In addition, these banks must recognize that asset growth should be accompanied by appropriate increases in capital.

*Banks should also refer to Banking Circular No. 115, "Income Diversion Through Management and Other Fees," dated August 30, 1978 and amendment No. 1 thereto, dated December 28, 1978.

All banks which are operating with capital levels below those which would be expected under normal economic conditions should be aware that the OCC will be unlikely to approve applications by them to acquire other banks. Similarly, the OCC will be likely to object to changes in control or acquisitions of such banks unless the transaction will result in prompt restoration of capital to appropriate levels.

The implementation of the OCC's capital forbearance policy has no effect on balance sheet or income statement items reported in Call Reports or other financial statements, nor does it allow banks to report, as assets, loans (or portions thereof) considered losses. On the contrary, the policy retains existing financial presentation rules and creates no inconsistencies with generally accepted accounting principles. The OCC believes that maintaining the integrity of financial statements is vital to assuring confidence in the banking system.

IV. ACCOUNTING FOR TROUBLED DEBT RESTRUCTURINGS

The OCC has followed, and will continue to follow, generally accepted accounting principles with respect to loans which have been formally restructured to enable the borrower to service the debt. Statement of Financial Accounting Standards No. 15 (FAS 15), Accounting by Debtors and Creditors for Troubled Debt Restructurings, governs the accounting for such restructurings. This Standard allows a loan to continue to be carried on the bank's books without any loss recognition if the loan is formally restructured in a manner so that it is probable and estimable that the borrower can repay the loan under the new terms, and that the total future cash payments by the borrower (principal and interest combined) at least equals the loan amount on the bank's books.

Accordingly, a bank which reasonably expects a borrower's future cash payments to equal or exceed the loan amount does <u>not</u> need to recognize a loss on the restructuring. In those situations where it is expected that the future cash payments on the restructured loan will be less than the loan amount, the loss recognized is limited to the expected cash flow deficiency.

Attached is a copy of Banking Circular 195, which includes more specific details of the accounting provisions. Bankers are encouraged to familiarize themselves with the accounting treatment described in FAS 15.

V. CALL REPORT CHANGES

Two changes are being made to the Call Reports, expected to be effective with the reports for the quarter ending June 30, 1986. One is needed to monitor the capital forbearance policy and potential changes to legal lending limits for national banks; the other is designed to prevent misconceptions about certain restructured loans.

Schedule RI-B, "Charge-offs and Recoveries and Changes in Allowance and Lease Losses," will be changed for national banks to provide information relative to capital forbearance and legal lending limits Memorandum items will be added to this schedule to identify a bank's charge-offs and recoveries of Special Category Loans on a cumulative basis since January 1, 1986. Special Category Loans are defined as (a) loans secured by farmland and loans to finance agricultural production and other loans to farmers from Schedule C of the bank's Call Report and (b) the oil and gas loans listed on Exhibit A hereto. Should the definitions change, the OCC will provide national banks with revised definitions prior to the due date for the Call Report first affected by the change.

The second set of changes involves the reporting of renegotiated "troubled" debt. The existing Schedule RC-N ("Past Due, Nonaccrual, and Renegotiated Loans and Lease Financing Receivables"), will be modified by removing the column entitled "Renegotiated troubled debt." Renegotiated loans which are performing in compliance with the modified terms will be reported in the memorandum section of Schedule RC-C under a new heading "Loans Restructured and In Compliance with Modified Terms." Renegotiated loans that become past due or are otherwise placed in nonaccrual status will be reported in Schedule RC-N in the appropriate categories.

In addition, a new memorandum item will be added to Schedule RC-N to require reporting of total renegotiated "troubled" debt included in the categories 30-89 days past due and accruing, 90 days or more past due and accruing, and nonaccrual. This memorandum item will be maintained for supervisory purposes on a confidential basis.

VI. LENDING LIMITS

The recognition by a bank of losses on loans reduces not only its capital, but also reduces the maximum amount the bank can lend by law to any single borrower. Lending limits are an important ingredient in protecting the safety and soundness of banks by requiring diversification of credit risks. Many banks have established internal controls limiting the size of loans to any single borrower to an amount less than the legal lending limit In those banks that do make loans at the legal lending limit such loans are generally small in number However, the declines in capital attributable to the problems in the oil and gas and agricultural sectors of the economy may cause some banks to be unable to serve the normal credit needs of a greater number of their creditworthy customers. In order to reduce the impact of these loan losses on a bank's ability to meet the legitimate credit needs of its financially sound customers the OCC believes it necessary and appropriate to relax lending limits during

the period in which the capital forbearance policy is in effect.

The Federal statute governing national bank lending limits is 12 USC 84. The OCC has issued implementing regulations at 12 CFR Part 32. In general, national banks are subject to a <u>general</u> limitation of 15 percent of total capital (i.e. unimpaired capital and unimpaired surplus), and may lend an additional 10 percent of total capital to the same borrower fully secured by readily marketable collateral. There are also a number of exceptions for specified types of loans. Under the statute, the OCC has the authority to establish limits other than those specified.

Under that authority, the OCC contemplates adopting as soon as possible a temporary amendment to 12 CFR Part 32 to be consistent with the purposes of the capital forbearance policy. It is anticipated at present that the amendment would substitute an increased general lending limit for national banks to offset the decline in capital resulting from losses attributable to problems in the agricultural and oil and gas sectors of the economy. As an offset, the new general lending limit would not increase any bank's lending limit above what it would have been had it not experienced losses attributable to these troubled economic sectors. The OCC also comtemplates including in the amendment a maximum general lending limit of 20 percent to preserve the benefits of risk diversification. The change would cover losses occurring after January 1, 1986 and not later than December 31, 1987, but the effect of those losses on lending limits would continue until January 1, 1993.

The change would allow banks, whose capital declines by no more than 25 percent as a result of losses attributable to agricultural and oil and gas loans, a general lending limit of 15 percent of their capital as of December 31, 1985. For example, a banks with a 10 percent capital ratio, whose capital ratio at December 31, 1985 subsequently declines to 8 percent as a result of losses attributable to the agricultural or oil and gas sectors, would have no reduction in its general lending limit. For banks whose capital ratios are even more dramatically reduced, the effect of the new provision would be a general lending limit of as much as 20% of their reduced capital. The new general lending limit rule would expire simultaneously with the capital forbearance policy on January 1, 1993. Comment will be solicited on the temporary amendment.

Exhibit B hereto is a worksheet which would enable national banks to compute their general lending limits under the new rule. The Comptroller will send appropriate material to national banks relating to the formal adoption of the change to 12 CFR Part 32. <u>The new lending limit will not be effective until formal adoption of the rule.</u>

ORIGINATING OFFICE

Questions regarding this Banking Circular may be directed to the Chief National Bank Examiner's Office, (202) 447-1646.

Robert L. Clarke
Comptroller of the Currency

EXHIBIT A

DEFINITIONS OF OIL AND GAS LOANS

The types of loans listed below regardless of purpose will be considered oil and gas loans for the purposes of qualifying for capital forbearance. Wherever "company" is referenced, the caption also assumes "individuals." SIC stands for Standard Industry Codes. See following pages for definition.

A. Loans to the major integrated oil companies;

B. Loans to companies engaged in operating oil and gas field properties (SIC 1311) (production);

C. Loans to companies primarily engaged in contract drilling (SIC 1381);

D. Loans to companies primarily engaged in performing exploration services on a contract basis (SIC 1382);

E. Loans to companies primarily engaged in performing oil and gas field services (SIC 1389);

F. Loans to petroleum refiners (SIC 2911);

G. Loans to manufacturers and lessors of oil field machinery and equipment (SIC 3533, 7394);

H. Loans to companies primarily engaged in pipeline transportation of petroleum (SIC 4612, 4613);

I. Loans to companies primarily engaged in natural gas transmission or distribution (SIC 4922, 4923, 4924);

J. Loans to companies primarily engaged in investing in oil and gas royalties or leases (SIC 6792);

K. Loans to others engaged in oil and gas related activities.

<u>Major Integrated Oil Companies</u>

<u>International Companies</u>

British Petroleum Co.
Chevron Corp.
Exxon Corp.
Gulf Oil Corp.
Mobil Corp.

Royal Dutch/Shell Group
- Royal Dutch Petroleum Co.
- Shell Oil Co.
- Shell Canada Ltd.
- Shell Transport & Trading Co.

Texaco, Inc.

Domestic Companies

Amerada-Hess
Ashland Oil Co.
Atlantic Richfield Co.
Kerr McGee Corp.
Occidental Petroleum Co.
Pennzoil
Phillips Petroleum Co.
Standard Oil Co. of California
Standard Oil Co. (Indiana)
Standard Oil Co. (Ohio)
Sun Company, Inc.
Tenneco Co.
Unocal

SIC CODES

SIC 1311 Crude Petroleum and Natural Gas

Establishments primarily engaged in operating oil and gas field properties. Such activities include exploration for crude petroleum and natural gas; drilling, completing, and equipping wells, operation of separators, emulsion breakers, desilting equipment; and all other activities in the preparation of oil and gas up to the point of shipment from the producing property. Also includes the production of oil through mining and extraction of oil from oil shale and oil sands.

SIC 1381 Drilling Oil and Gas Wells

Establishments primarily engaged in drilling wells for oil or gas field operations for others on a contract, fee, or similar basis. Includes contractors that specialize in "spudding in," "drilling in," redrilling, and directional drilling.

SIC 1382 Oil and Gas Field Exploration Services

Establishments primarily engaged in performing geophysical, geological, and other exploration services for oil and gas on a contract, fee or similar basis.

SIC 1389 Oil and Gas Field Services

Establishments primarily engaged in performing oil and gas field services, for others on a contract, fee, or similar basis, such as excavating slush pits and cellars; grading, and building of foundations at well locations; well surveying; running, cutting, and pulling casings, tubes, and rods; cementing wells; shooting wells; perforating well casing; acidizing and chemically treating wells; and cleaning out, bailing, and swabbing wells.

SIC 2911 Petroleum Refining

Establishments primarily engaged in producing gasoline, kerosene, distillate fuel oils, residual fuel oils, lubricants and other products from crude petroleum and its fractionation products, through straight distillation of crude oil, redistillation of unfinished petroleum derivatives, cracking or other processes.

SIC 3533 Oil Field Machinery and Equipment

Establishments primarily engaged in manufacturing machinery and equipment for use in oil and gas fields.

SIC 7394 Equipment Rental and Leasing Services

- Oil field equipment rental
- Oil well drilling equipment rental; machinery, drilling bits, etc.

SIC 4612 Crude Petroleum Pipe Lines

Establishments primarily engaged in the pipe line transportation of crude petroleum.

SIC 4613 Refined Petroleum Pipe Lines

Establishments primarily engaged in the pipe line transportation of refined products of petroleum, such as gasoline, and fuel oil.

SIC 4922 Natural Gas Transmission

Establishments engaged in the transmission and/or storage of natural gas for sale.

SIC 4923 Natural Gas Transmission and Distribution

Establishments engaged in both the transmission and distribution of natural gas for sale.

SIC 4924 Natural Gas Distribution

Establishments engaged in the distribution of natural gas for sale.

SIC 6792 Oil Royalty Traders

Establishments primarily engaged in investing in oil and gas royalties or leases, or fractional interest therein.

SIC 1321 Natural Gas Liquids Production

Establishments primarily engaged in producing liquid hydrocarbons from oil and gas field gases.

SIC 1623 Pipe Line Construction

- Distribution lines (oil and gas field construction)
- Pipe laying
- Pipe line construction
- Pipe line wrapping
- Pumping station construction

SIC 1629 Heavy Construction

- Oil refinery construction
- Petroleum refinery construction

SIC 3494 Valves and Pipe Fittings

SIC 3498 Fabricated Pipe and Fabricated Pipe Fittings

SIC 3559 Special Industry Machinery

- Petroleum refinery equipment

SIC 4226 Special Warehousing and Storage

- Oil and gasoline storage caverns (for hire)
- Petroleum and chemical bulk stations and terminals for hire

SIC 4925 Mixed, Manufactured or Liquefied Petroleum Gas Production and/or Distribution

Establishments engaged in the manufacture and/or distribution of gas for sale, including mixtures of manufactured with natural gas.

SIC 5084 Industrial Machinery and Equipment

- Derricks (Wholesale)
- Drilling bits (Wholesale)
- Oil Refining machinery, equipment, and supplies (Wholesale)
- Oil well machinery, equipment, and supplies (Wholesale)
- Oil well supply houses (Wholesale)

SIC 5171 Petroleum Bulk Stations and Terminals

Establishments primarily engaged in wholesaling petroleum products, including liquefied petroleum gas, from bulk liquid storage facilities.

SIC 5172 Petroleum and Petroleum Products Wholesalers

Establishments primarily engaged in wholesaling petroleum and products. Included are packaged and bottled petroleum products distributors, truck jobbers, and others marketing petroleum and products at wholesale.

SIC 6211 Security Brokers, Dealers, and Flotation Companies

- Oil and gas lease brokers
- Dealers in oil royalties

SIC 8911 Engineering, Architectural, and Surveying Services

- Petroleum Engineering

Others

Establishments and individuals engaged primarily in oil and gas related activities. Examples of such loans would be mortgages and personal loans to individuals whose sole source of repayment is from the profits of an oil or gas company or employment by an oil or gas company.

EXHIBIT B

GENERAL LENDING LIMITATION CALCULATIONS
(For use until January 1, 1993)

Calculation date____________________

1. Total Capital on December 31, 1985 . . . .$__________
2. 15% of the amount on Line 1 . . . .$__________
3. Total Capital on Calculation date . .$__________
4. 15% of the amount of Line 3 . . . .$__________

IF THE AMOUNT ON LINE 4 EQUALS OR EXCEEDS THE AMOUNT ON LINE 2, STOP HERE. THE BANK'S CURRENT GENERAL LENDING LIMITATION IS THE AMOUNT ON LINE 4.

5. Sum of Special Category Loan Charge-offs since December 31, 1985 (but only through December 31, 1987) . . .$__________
6. Sum of all recoveries since December 31, 1985 on all loans included in Line 5 . . . . . .$__________
7. Amount on Line 5 minus amount on Line 6 . . . .$__________
8. Amount on Line 3 plus amount on Line 7 . . . .$__________
9. 15% of the amount of Line 8 . . . .$__________
10. 20% of the amount on Line 3 . . . .$__________
11. Lesser of the amounts on Line 9 and Line 10 . . . .$__________
12. Lesser of the amounts on Line 2 and Line 11 . . . .$__________

THE BANK'S CURRENT GENERAL LENDING LIMITATION IS THE AMOUNT ON LINE 12.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Annual Convention Conference of State Bank Supervisors, Williamsburg, Virginia, April 14, 1986

While thinking about what I was going to say to you today, I remembered the advice a college football player once gave to me: pick a subject you know about.

Back in my undergraduate days as an economics major at Rice University in Houston, I signed up for what was known as the easiest elective course in the school: New Testament Survey. The course was taught by a retired minister who had the reputation for giving the same examination question every semester: Describe and trace the travels of the Apostle Paul. Naturally everybody committed to memory a detailed answer to that question. Unfortunately, the semester I took the course, the professor surprised everyone by handing out a different exam question: Discuss and criticize the Sermon on the Mount. Everyone immediately got up and walked out — except one football player, "Tiny" McHenry. A week or so later, the grades were posted. Everyone failed — except Tiny, who got a B-plus. When we asked him how he got his good grade, he said he started his examination answer with the words: "Who am I to criticize the words of the Master, but I would like to take this opportunity to write about the travels of Saint Paul."

Today I would like to take this opportunity to talk about something I know about: banking supervision. As a practicing attorney for 18 years, I specialized in banking law, so I've long been a sharer in supervisory discourse. I have enjoyed knowing several state supervisors well, despite occasional disagreements. And I particularly have enjoyed working with your new president, Jim Sexton, who is certainly among the most practical supervisors I have known.

One of the more pleasant features of participating in bank supervisory debate is that disagreement rarely leads to discord. There is a good reason why discord is so rare, a reason touched on by Federal Reserve Board Chairman Marriner Eccles when he addressed this group 43 years ago.

On one thing, Eccles said, bank supervisors can agree. He explained that, as public officials responsible for banking regulation, all bank supervisors want a strong and successful banking system. It cannot be strong unless it is successful. All bank supervisors favor what we believe to be in the public interest. And what, in fact, best serves the public interest will survive in the long run, he said. Chairman Eccles appeared before this group to argue for a unified system of bank regulation — that is to say, he wanted one supervisory agency for banking and he wanted that agency to be the Federal Reserve Board. He often and boldly declared his adherence to this principle, which — to point out the obvious — was just as welcome in the Office of the Comptroller of the Currency as it was at your annual convention.

In a greater sense, however, Eccles was correct. What best served the public interest did survive in the long run. Had it not, today I would be in Houston practicing law and Williamsburg would be short one annual convention this year.

I think you will agree with me that — in a greater sense — the dual banking system of this country is one of objectives, not a jurisdictional formality. Bank supervisors are all trying to supervise banks in a way that the banking system will attain the dual goals of growth and stability at the same time, over time.

Marriner Eccles would agree with that, I think.

Yes, we all — bankers and supervisors alike — want a strong and successful banking system and we recognize that it cannot be strong unless it is successful. Achieving growth and stability at the same time, over time, is a difficult task at any time. At this time — for many reasons — it has become more difficult.

In the last few years, bank supervisors have had to come to grips with new questions. Unlike my friend Tiny McHenry, at college in Texas many years ago, we cannot and will not receive a passing grade if we rely on old answers.

Although we work with numbers, bank supervision isn't arithmetic, where one plus one always equals two, even under the "new math." It is more like the art of navigation: We ascertain our exact position — that is the purpose of examination and monitoring. We choose where we want to go: that is the supervisory policy goal. Then — to get there — we map out a route. We constantly reassess our position along the way and — if we find ourselves off course — we take the necessary corrective action to get back on course.

A strong banking system is our charted destination, but I think you would agree with me that the system is somewhat off course. Let me stress that being off course doesn't necessarily mean lost at sea — and in this case it certainly doesn't. However, we do need to alter the direction in which the banking system is headed to bring it back on course. And the supervisory changes — the corrective actions — needed to bring the system back on course are matters of degree, not a question of striking out into entirely unexplored and uncharted waters.

Today I would like to discuss supervisory corrective actions that federal regulatory authorities believe are needed: actions to grant banks experiencing agricultural and energy loan problems more opportunity and incentive to help themselves and their borrowers. I don't have to describe the problems bankers in states with heavy concentrations of agricultural and energy operations are experiencing. The fact that bankers from those states who should be here are instead at home working on those problems speaks far more eloquently of the problems than I can.

Early on, we at the OCC — and our colleagues at other federal agencies — determined that, over the short run, the most beneficial thing we could do for banks with loan-quality problems was to identify and remove obstacles that inhibit banks from successfully working with their borrowers to achieve mutually satisfactory loan workout plans. Our three-pronged approach — encouraging banks to use Financial Accounting Standards Board Statement Number 15, changing the call report disclosure requirements for restructured loans, and developing our capital forbearance program — is a response to the needs of banks and their borrowers during a difficult period of transition. This three-pronged approach recognizes that restructuring loan terms to make it possible for borrowers to repay their debts — even when a partial writedown of a loan is involved — is often in the long-run interest of banks and their borrowers.

In regard to the capital forbearance program — it also recognizes that capital exists to be used when needed.

Somewhere along the way we all learned this functional definition of capital: it is a cushion that helps absorb the impact of unexpected financial shocks. When I was a boy, we had a cushion that my grandmother had spent many hours embroidering with her own hands. It was a thing of beauty. The colors were vibrant reds and greens and gold worked into an intricate pattern. We wrapped it in plastic and, for most of the year, it lay in a big cedar chest. On special family occasions — Thanksgiving, Christmas and a few others — we would take it out and set it in its accustomed place on the sofa in the living room so that all could see and admire it. It was a beautiful holiday ornament — but it was never put to the use for which cushions are intended.

Financial capital can decorate financial statements — resting in its accustomed place for all to see and to admire — but it is intended to be used when needed. Our capital forbearance program would encourage bankers to use the capital of their institutions to soften the impact of unexpected financial shocks from troubled agricultural and oil and gas loans. The program is an emergency measure, but it is an emergency measure within the context of the regulator's traditional "bootstrap" philosophy that recognizes that the regulator cannot solve a bank's problems, only that the bank's management can solve its problems, and the only way it can do so is by pulling itself up. It is an extraordinary program aimed at an extraordinary problem, but it takes into account that extraordinary problems are solved in ordinary ways: by hard work and perseverance.

It is important to note here that the program was carefully crafted so that it will primarily benefit banks that have sufficient earnings to absorb the charge-offs and to replenish capital. It will not, however, provide any support to those banks that have completely exhausted their capital, nor will it assist banks that have little or no prospect of returning to profitability. While these banks will continue to receive our supervisory efforts toward recovery, any special assistance would only prolong their difficulties without improving their prospects for recovery, thus raising the potential liability to the Federal Deposit Insurance Corporation.

The last thing we need in this country is a new class of terminally ill depository institutions kept alive as regulatory wards through heroic measures. The program recognizes that regulatory attention should go to those institutions that have a fighting chance of survival — and that are willing and able to fight.

It is first aid because it would give well managed banks temporary capital relief so that they could rebuild their portfolios. It is not a cure-all, but a type of emergency treatment that will allow these banks to rehabilitate themselves. Their long-term vitality, however, requires that they themselves take action. It is not lemon aid because it would not provide any support to those banks that have completely exhausted their capital, nor would it assist banks that have little or no prospect of returning to profitability.

I know that I've covered a lot of territory today, but as my friend at college, Tiny McHenry, would point out, not nearly the amount of territory covered by the Apostle Paul on his peripatetics. Some of the things we learn in school stay with us for life.

In maintaining the dual banking system — in fostering the dual goals of the growth and stability of the system — bank regulators face new questions that require new answers. Those answers must come from innovative thinking. Those answers must come from imaginative thinking. Those answers must come from creative thinking.

Working together, I am sure state and federal regulators will find the answers to the questions we face. To fight the good fight and to keep the faith — these are the charges the public has given bank supervisors, state and federal. I have no doubt that, working together, we will make the grade.

Interpretive Letters—January 15 and February 15, 1986

Topic	*Letter No.*
Laws	
12 U.S.C. 24 (7)	355, 356
12 U.S.C. 29	355
12 U.S.C. 85	354
12 U.S.C. 1971-1978	356
Regulations	
12 C.F.R. 5.34	355, 356
12 C.F.R. 7.7310	354
12 C.F.R. 7.7376	356
12 C.F.R. 7.7590	354
12 C.F.R. 29	354
12 C.F.R. 34	354

This is in response to your letter to William B. Glidden, Assistant Director, Legal Advisory Services Division, which has been referred to me. The issue raised in your letter is whether a national bank can offer variable-rate, open-end consumer loans secured by real estate to out-of-state customers residing in a state the law of which requires that such loans have a fixed rate.

The *** (Bank), would like to offer South Carolina residents a revolving line of credit secured by a second mortgage on the borrower's home. The borrower would be required to pay only accrued interest for 10 years at a rate which may be adjusted monthly to reflect changes in the Bank's prime rate. The credit line could not be used to finance or refinance the purchase of a one- to four-family dwelling if the line is secured by a lien on the dwelling.[1] In your letter, you ask whether South Carolina law would prohibit the Bank from offering the line of credit to South Carolina residents. Under South Carolina law, S.C. CODE ANN. § 37-3-412 (Law. Co-op. 1976), consumer loans secured by liens on real estate shall have "a fixed nonvariable rate unless the creditor makes the transaction in accordance with any regulation governing alternative mortgages promulgated by the State Board of Financial Institutions or a federal regulatory agency."[2]

In your letter, you request that this Office issue a staff opinion letter stating that section 37-3-412 would not apply to the lines of credit extended to South Carolina residents. You make the following arguments in support of such an opinion.

1) Twelve U.S.C. § 85 and Interpretive Ruling 7.7310, along with judicial and Office interpretations thereof, require that the Bank be allowed to export to South Carolina a variable rate keyed to the Bank's prime rate, as is permitted by North Carolina law.[3]

(2) The South Carolina statute is preempted by 12 C.F.R. Part 34.

For the reasons set forth below, I concur with your first argument.

Materiality of Variable-Rate Lending Authority in State Law

As you are aware, 12 U.S.C. § 85 and Interpretive Ruling 7.7310 govern the rate of interest that national banks may charge on loans. Twelve U.S.C. § 85 authorizes a national bank to charge interest on any loan at

> the rate allowed by the laws of the State . . . where the bank is located . . . except that where by the laws of any State a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such state under this chapter.[4] (12 U.S.C. § 85.)

The courts have interpreted the language cited to permit a national bank to charge the highest interest rate allowed to other lenders by the laws of the state where it is located. *See, e.g., Tiffany v. National Bank of Missouri*, 85 U.S. 409 (1874). Similarly, the courts have found that section 85 incorporates state usury laws to determine the interest rate allowed by the state where the national bank is located. *See Daggs v. Phoenix National Bank*, 177 U.S. 549 (1900). These interpretations are reflected in Interpretive Ruling 7.7310(a) as follows:

> A national bank may charge interest at the maximum rate permitted by State law to any competing State-chartered or licensed lending institution. If State law permits a higher interest rate on a specified class of loans, a national bank making such loans at such higher rate is subject only to the provisions of State law relating to such class of loans that are material to the determination of the interest rate. (12 C.F.R. § 7.7310(a).)

The permission given to national banks to charge interest at the rate allowed by the laws of the state where the bank is located is designed to place national banks on an equal footing with the most-favored state-chartered lenders in

[1]Hence, the credit line would not be an "adjustable-rate mortgage" as defined in 12 C.F.R. § 29.1 because it would not be a purchase-money transaction. Neither would it be made in accordance with 12 C.F.R. Part 29 because the adjustable rate, being based on the Bank's prime rate, would be within the Bank's control. *See* 12 C.F.R. § 29.3

[2]As you are aware, alternative mortgage regulations have been promulgated not only by this Office (in 12 C.F.R. Part 29), but also by the Federal Home Loan Bank Board (FHLBB) in 12 C.F.R. §§ 545.32 and 545.33 and the National Credit Union Administration (NCUA) in 12 C.F.R. § 701.21. This Office has opined that the authority of national banks to adopt the highest rate allowed by state law to a competing lender on the same class of loans extends to federally established rates adopted pursuant to state law. *See* Letters by Charles F. Byrd, Assistant Director, Legal Advisory Services Division, dated March 20, 1985, *reprinted in* [Current Binder] Fed. Banking L. Rep. (CCH) ¶85, 503, and Peter C. Liebesman, Assistant Director, Legal Advisory Services Division, dated April 4, 1984. Therefore, the Bank can partake of the FHLBB or NCUA regulations via South Carolina law if either set of regulations authorizes the type of variable-rate mortgage in question. The variable-rate mortgage in question is one prohibited under the FHLBB regulations, which require that interest-rate adjustments on a loan secured by the borrower's residence be based on an index that "is readily available and verifiable by the borrower and is beyond the control of the association." 12 C.F.R. § 545.33(e)(1). However, from the facts as I understand them, I can find nothing in the NCUA regulations that would prohibit the subject mortgage.

[3]I am unable to find any prohibition under North Carolina law against variable-rate consumer loans secured by liens on real estate. However, I would advise you to verify the permissibility of such loans under North Carolina law.

[4]It should be noted that section 85 also permits national banks alternatively to charge an interest rate of 1 percent above the discount rate on ninety-day commercial paper in effect at the Federal Reserve District where the bank is located.

that state, and to protect national banks from unfriendly state legislation. *First National Bank of Mena v. Nowlin*, 509 F.2d 872 (8th Cir. 1975); *Commissioner of Small Loans v. First National Bank of Maryland*, 268 Md. 305, 300 A.2d 685 (1973).

This Office has interpreted the "most favored lender doctrine" to authorize national banks to adopt the highest rate allowed by the laws of the state to a competing lender on the same class of loans, provided that they also adopt those provisions that are "material to the determination of the interest rate." *See* 12 C.F.R. § 7.7310(a). With respect to variable-rate loans, the Office opined in a recent staff interpretive letter that provisions material to the calculation of the interest rate include "annual and life-of-loan interest-rate caps, restrictions on the frequency of interest-rate changes, and restrictions on the permissible index." Letter from Charles F. Byrd, Assistant Director, Legal Advisory Services Division, dated March 20, 1985. That opinion was not intended to cover only restrictive provisions of the sort described.

This Office has defined "provisions of State law . . . material to the determination of the interest rate" as those state laws that either 1) set forth the characteristics of a category of loans, or 2) establish the manner in which the numerical rate of interest is determined. *See* Letter by Peter C. Liebesman, Assistant Director, Legal Advisory Services Division, dated February 4, 1983. Although the letter of March 20, 1985, lists as examples of the second category of that definition various rate-setting restrictions, it is just as certain that permissive state law provisions covering those areas would establish with equal directness the manner in which the numerical interest rate is determined. Therefore, with respect to variable-rate loans, this Office in effect, has already opined that a state law governing, *inter alia*, the frequency of interest-rate changes, whether restrictive or permissive, is "material to the determination of the interest rate" for purposes of I.R. 7.7310(a). The North Carolina law authorizing banks to offer variable-rate consumer loans is, in essence, a provision governing rate-change frequency and, as such, falls squarely within the ambit of the interpretive ruling.

Export of Variable-Rate Lending Authority

The question next arises whether a national bank located in North Carolina can apply North Carolina law on variable rate mortgages to loans made to borrowers residing in South Carolina. As you note, the Supreme Court held in *Marquette National Bank of Minneapolis v. First of Omaha Service Corporation*, 439 U.S. 299 (1978), that 12 U.S.C. § 85 permits a national bank to charge out-of-state borrowers interest at "the rate allowed by the laws of the State . . . where the bank is located." As noted earlier, such a rate includes the laws of that state that are material to the determination of the interest rate on a particular loan. Accordingly, the courts have applied I.R. 7.7310(a) to determine the manner in which the usury laws of the state where a national bank is located should be construed for national bank loans that are made to residents of other states. *See Fischer v. First National Bank of Omaha*, 548 F.2d 255 (8th Cir. 1977); *Fischer v. First National Bank of Chicago*, 538 F.2d 1284 (7th Cir. 1976). Consistent with those decisions, I believe a North Carolina national bank may export the maximum rate permitted by North Carolina law, including those provisions of North Carolina law that are material to the determination of the interest rate, to borrowers in South Carolina. *See* Letter by Peter C. Liebesman, dated February 4, 1983. Since, as discussed above, state law governing the frequency of interest-rate changes on a loan[5] is material to the determination of the interest rate, it is a logical corollary that a national bank located in a state the law of which does not restrict the frequency of interest-rate changes on a particular class of loans can export that law, along with the maximum rate that state allows, to a state the law of which restricts or prohibits rate changes on that class of loans.

Therefore, I concur with your first argument that 12 U.S.C. § 85 and I.R. 7.7310, along with judicial and Office interpretations thereof, constitute sufficient authority for the Bank to export to South Carolina a variable-rate law covering consumer loans secured by real estate.

A strong caveat is in order here. Despite the sound logic of the legal interpretation equating variable-rate lending authority with the absence of restriction on the frequency of interest-rate changes, our research has located no judicial pronouncements on point. It, therefore, is impossible to predict whether any particular court would rule in favor of federal preemption by way of 12 U.S.C. § 85 and I.R. 7.7310 in connection with a state law bar to variable-rate loans.

National Bank Real Estate Loans in Context of State Usury Law

With regard to your second argument, I do not agree that South Carolina law is preempted by 12 C.F.R. Part 34. The general rule is that a national bank's authority to lend at variable interest rates is governed by state law. Interpretive Ruling 7.7590, 12 C.F.R. § 7.7590, provides, "under the ordinary rules of contract law, a loan agreement may include an interest rate escalation clause." However, the Office has been careful to limit the applicability of that rule to situations where the use of variable interest rates is permitted under the contract law of the state in which a national bank is located.

An exception to the foregoing general rule exists for adjustable-rate mortgages (ARMs) made by a national

[5] The reasoning in that letter, I believe, applies equally to state law that prohibits variable rates on a particular class of loans.

bank in accordance with 12 C.F.R. Part 29. Part 29 preempts state laws that otherwise would interfere with the ability of national banks to make adjustable-rate mortgage loans. *See* 12 C.F.R. § 29.2; 46 *Fed. Reg.* 18,932, 18,942 (March 27, 1981) (preamble to the 1981 ARM regulation). No similar provision exists in 12 C.F.R. Part 34 for variable-rate loans that are not ARMs under 12 C.F.R Part 29.

This Office issued 12 C.F.R. Part 34 for the express purpose of eliminating five categories of restrictions on real estate lending by national banks and ensuring that these same restrictions could not be imposed on national banks by state law. 48 *Fed. Reg.* 40698,40700 (September 9, 1983). These five categories are loan-to-value ratios, amortization requirements, maturity requirements, aggregate limits, and certain terms of loans secured by leaseholds. *Id.* Any state law purporting to govern any of these matters is expressly preempted with regard to national banks by 12 C.F.R. § 34.2.

It was not the intention of this Office, however, to preempt all state regulation of real estate lending. In treating the comments received on the proposed rule, the preamble to the final rule took note of, *inter alia*, suggestions to override state usury limits in this area. The response clearly declined to adopt those suggestions as follows:

> The Office is preempting, at this time, only those state laws that govern those areas in which federal limitations and restrictions are eliminated . . . The final rule clarifies the limited scope of the preemption. Aside from the specific preemption of state law as to the restrictions discussed, the relationship between state and federal law in regard to real estate loans as it existed prior to the amendment of 12 U.S.C. 371 is expected to remain unchanged. (48 *Fed. Reg.* at 40700.)

Thus, any state regulations outside of the five areas cited continue to apply to national banks, unless preempted by other regulation.

Accordingly, it is my opinion that Part 34 does not preempt the South Carolina statute in question since its limited scope fails to encompass state laws prohibiting or restricting variable rates on a class of loans.

I trust that this has been responsive to your inquiry.

Roberta W. Boylan
Director
Legal Advisory Services Division

* * *

355—December 10, 1985

This letter concerns the notification of *** (Bank) of its intent to establish a wholly owned *de novo* operating subsidiary (Subsidiary) for the purpose of entering into a general partnership (Partnership) that would hold and dispose of assets acquired in satisfaction of a foreclosed debt. The other general partners will be the operating subsidiaries of another national bank and of two state-chartered, federally insured banks. Our understanding of the activities of the Subsidiary and the Partnership is based upon the operating subsidiary notifications of the two national banks involved and upon discussions with representatives of the two national banks. The Bank may establish the proposed subsidiary, subject to the understandings and qualifications stated below.

The four banks involved in the proposed partnership arrangement were lenders in a syndicated loan to *** (Debtor). The loan is secured by certain of the Debtor's assets. This collateral consists of tank cars, hopper cars, and associated leases. The loan is in default, and the creditor banks wish to take the necessary steps effectively to realize upon their collateral. For a variety of practical, financial, and tax considerations associated with the nature of the collateral, it is very difficult to divide the physical collateral equitably among the four banks at this point in time. The banks have determined that the establishment of operating subsidiaries to enter into a general partnership is the best alternative for protecting the interest of the banks and maximizing their recovery. The Partnership would take possession of, hold, appropriately manage and liquidate all the collateral assets. The cash proceeds would then be distributed to the partners.

The Partnership consists only of the four lenders, and each partner's partnership interest corresponds to its proportionate interest in the original loan and collateral. The intent of the Partnership is solely to hold the DPC assets, to liquidate them in an orderly manner, and to disperse the cash to the partners (the former creditors). There is not expected to be substantial additional outlay required of the partners, nor a substantial degree of continuing development and operation of the DPC assets. It is also intended to dispose of all assets in a timely manner. The partnership agreement reflects these limited purposes and powers. The partnership agreement recites that the Partnership will operate in compliance with Title 12 of the United State Code.

The Bank also represents that it will adequately capitalize and operate the proposed Subsidiary so as to minimize the likelihood of piercing the corporate veil under applicable corporate law.

The activity of the proposed Subsidiary, namely holding, managing, and liquidating DPC assets to assure repayment of a loan, is a permissible activity for national banks

under 12 U.S.C. § 24(7); *see also*, 12 U.S.C. § 29 (real property) and therefore, one that an operating subsidiary of a national bank may engage in. The Subsidiary's conduct of this activity through a partnership must also be addressed.

In two prior instances, the Office has permitted a national bank, through an operating subsidiary, to act as a general partner with another general partner where the two partners were equal partners. *See* Letter from Michael Patriarca, Deputy Comptroller (OCC Interpretive Letter No. 346, July 31, 1985), *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 85,516; Letter from Michael Patriarca, Deputy Comptroller (OCC Interpretive Letter No. 289, May 15, 1984), *reprinted in* [1983-1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,453.

As the Office discussed in those letters, the participation of national banks in partnerships raises significant legal and supervisory concerns. Because the DPC asset partnership with the features described in the Bank's proposal is limited to holding and liquidating an already-shared DPC asset, such partnerships among the creditor banks do not raise the same legal and supervisory concerns as bank partnerships in general. In addition, in the Bank's proposal the only partners are and will be the banks who were original co-lenders to the Debtor. Based on our review of the Bank's operating subsidiary proposal, the Bank, through the Subsidiary, may permissibly engage in the activities and the Partnership as it was described above, provided in addition that: (1) the Partnership disposes of all assets within a reasonable and prompt time and is dissolved promptly thereafter; (2) the Partnership acknowledges that it is subject to the provisions of federal banking laws and regulations applicable to national banks; and (3) the Partnership acknowledges that it is subject to regulation, supervision, and examination by this Office.

The Office believes that the nature and structure of a partnership, as well as the activities in which it is engaged, are necessary factors in the legal and supervisory assessment of national bank involvement. Accordingly, changes in the activities of the partnership, changes in the Bank's proportion of interest in the partnership, material changes in the provisions of the partnership agreement, and changes in the identity of other partners are considered new activities of the operating subsidiary for purposes of the notification requirement of 12 C.F.R. § 5.34(d)(1). Similarly the formation of other, new partnerships to dispose of other assets are also considered new activities for notification purposes.

The Office hereby notifies the Bank in accordance with 12 C.F.R. § 5.34(d)(1)(i) that it may establish the proposed operating subsidiary subject to the understandings, representations, and conditions discussed. This letter addresses only a DPC asset partnership with the characteristics discussed and should not be taken as a general expression of the Office's views on bank partnerships in general. As the Office further addresses these areas in policy developments, rulemaking, or interpretation, the Bank will be expected to comply with future measures adopted by the Office. Our review is limited by practical necessity to those legal and prudential issues arising under the laws for which the Office has primary responsibility. It should not be construed as a general opinion and analysis addressing all possible concerns.

Michael Patriarca
Deputy Comptroller
for Multinational Banking

* * *

356—January 7, 1986

William G. Foster, Jr.
President
Sovran Futures Corporation
Sovran Center
One Commercial Place
Post Office Box 600
Norfolk, Virginia 23501

Dear Mr. Foster:

This is in response to your letter of notification that Sovran Futures Corporation, an operating subsidiary of Sovran Bank, N.A. (Bank), wishes to function as a Futures Commission Merchant (FCM) with respect to agricultural and metals futures. As an FCM, the subsidiary would solicit, accept, and execute customer orders for agricultural and metals futures. *See* 17 C.F.R. § 1.3(p); Markham & Gilberg, *Federal Regulation of Bank Activities in the Commodities Markets,* 39 Bus. Law 1719, 1748-1754 (Aug. 1984). Your letter of notification indicated that the subsidiary would not purchase and sell the subject futures for its own account. As you know, the Office previously advised the Bank that it could establish the operating subsidiary to act as an FCM with respect to financial, currency, stock index, and gold and silver bullion futures.

The National Bank Act provides that a national bank shall have the power:

> To exercise . . . all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange and other evidences of debt; by receiving deposits; by buying and selling exchange, coin and bullion; by loaning money on personal security . . .
> (12 U.S.C. § 24(Seventh).)

A national bank may exercise its power to engage in activities that are a part of or incidental to the business of banking by means of an operating subsidiary. *See* 12 C.F.R. § 5.34(c). At issue, therefore, is whether the proposed FCM activities are permissible banking functions.

In my opinion, the performance of FCM functions for agricultural and metals futures is incidental to the business of banking when performed on behalf of bank loan customers who are engaging in the futures transactions to hedge risks underlying their loans from the bank. In reaching that conclusion, I have noted that futures are often used as a risk management tool to hedge against price and other risks incurred in the cash markets for commodities. When the party at risk is a bank borrower, the borrower's cash market risks are often reflected as credit risks to the bank where the cash market volatility might affect the borrower's repayment ability, the value of loan collateral, or otherwise affect the quality of the bank's loan. As a result, banks often advise, or in some cases require, their loan customers to hedge against risks underlying their loans by engaging in futures transactions. By acting as FCMs, banks would thereby provide useful and convenient means by which their credit risks can be alleviated. Consequently, performing FCM business in agricultural and metal futures for loan customers' hedging transactions represents a convenient and useful adjunct to banks' express lending power and is therefore incidental to the business of banking. *See Independent Bankers Association v. Heimann,* 613 F.2d 1164, 1170 (D.C. Cir 1979), *cert. denied*, 449 U.S. 823 (1980) (analogous finding that banks may sell credit life insurance to loan customers to protect the bank's loans pursuant to the incidental powers clause). *See also Arnold Tours v. Camp,* 472 F.2d 427 (1st Cir. 1972); *M & M Leasing v. Seattle First National Bank,* 563 F.2d 1377 (9th Cir. 1977) (endorsing use of "convenient and useful" standard to determine whether an activity is incidental to the business of banking). The operating subsidiary of the Bank may accordingly execute orders for agricultural and metals futures contracts provided that the execution of such contracts is limited to hedging transactions in connection with loans to Bank customers.

The Bank should take precautions, however, not to violate the anti-tying provisions of the banking laws. Twelve United States Code section 1972 provides, in pertinent part:

(1) A bank shall not in any manner extend credit, lease or sell property of any kind or furnish any service, or fix or vary the consideration for any of the foregoing, on the condition or requirement —

(A) that the customer shall obtain some additional credit, property or service from such bank other than a loan, discount, deposit or trust service;

(B) that the customer shall obtain some additional credit, property, or service from a bank holding company of such bank or from any other subsidiary of such bank holding company.

These provisions were enacted to prevent banks from engaging in tying arrangements—in other words, conditioning the offering of a service to a customer on his use of other bank services. A limited exception to the tying provisions was created for "traditional banking practices"—loans, discounts, deposits, and trust services. S. Rep. No. 1084, 91st Cong., 2d Sess., *reprinted in* 1970 U.S. Code Cong. & Ad. News 5519, 5535. Since the offering of FCM services does not fall within the limited exception for traditional banking services, if the Bank were to condition its loans on the use of its subsidiary's futures services, the practice would run afoul of section 1972. However, anti-tying provisions do not prevent the Bank from requiring borrowers to hedge their loans as long as the requirement is based on credit factors. If the Bank does require a borrower to hedge his loan, it cannot require the borrower to use the Bank's FCM. However, as long as the Bank does not require its borrowers to use its FCM, but merely offers this service to them it will not have violated 12 U.S.C. § 1972.

Accordingly, the Bank's operating subsidiary may act as an FCM to execute futures contracts in agricultural and metals futures solely to hedge risks associated with the Bank's lending transactions. In doing so, the Bank must be careful not to violate the anti-tying provisions of the banking laws.

Michael A. Mancusi
Senior Deputy Comptroller
for National Operations

* * *

Mergers—January 1 to March 31, 1986

Mergers consummated involving two or more operating banks.

THE CHASE MANHATTAN TRUST COMPANY OF FLORIDA, NATIONAL ASSOCIATION, Boca Raton, Florida, and Lincoln First Trust Company of Florida, N.A., Boca Raton, Florida

Names of banks and type of transaction	*Total assets*
The Chase Manhattan Trust Company of Florida, National Association, Boca Raton, Florida (17674), with	$ 910,000
and Lincoln First Trust Company of Florida N.A., Boca Raton, Florida (17260), with	654,000
merged January 1, 1986, under charter and title of the former. The merged bank at date of merger had	1,564,000

* * *

COMMERCE BANK OF COLUMBIA, NATIONAL ASSOCIATION, Columbia, Missouri, and Commerce Bank of Tipton, National Association, Tipton, Missouri

Names of banks and type of transaction	*Total assets*
Commerce Bank of Columbia, National Association, Columbia, Missouri (14984), with	$55,716,000
and Commerce Bank of Tipton, National Association, Tipton, Missouri (17165), with	27,700,000
merged January 1, 1986, under charter and title of the former. The merged bank at date of merger had	83,916,000

* * *

COMMERCE BANK OF ST. LOUIS COUNTY, NATIONAL ASSOCIATION, Clayton, Missouri, and Commerce Bank of St. Louis, National Association, St. Louis, Missouri

Names of banks and type of transaction	*Total assets*
Commerce Bank of St. Louis County, National Association, Clayton, Missouri (16945), with	$1,132,835,000
and Commerce Bank of St. Louis, National Association, St. Louis, Missouri (16944), with	470,596,000
merged January 1, 1986, under charter of the former and title of the latter, with headquarters in Clayton. The merged bank at date of merger had	1,587,600,000

* * *

COMMUNITY BANK & TRUST, NATIONAL ASSOCIATION, Fairmont, West Virginia, and National Bank of Monongah, Monongah, West Virginia

Names of banks and type of transaction	*Total assets*
National Bank of Monongah, Monongah, West Virginia (7545), with	$ 22,312,000
and Community Bank & Trust, National Association, Fairmont, West Virginia (15760), which had	177,461,000
merged January 1, 1986, under charter and title of the latter. The merged bank at date of merger had	199,773,000

COMPTROLLER'S DECISION

On September 20, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge National Bank of Monongah, Monongah, West Virginia (NBM), into Community Bank & Trust, National Association, Fairmont, West Virginia (CBT). This application was based on an agreement finalized between NBM and CBT on July 23, 1985.

As of June 30, 1985, CBT, a wholly owned subsidiary of CB&T Financial Corp. (CBT Corp.), held total deposits of $133 million in three offices. As of the same date, NBM held total deposits of $20 million in one office.

The relevant geographic market for the proposed merger is Marion County, West Virginia. Marion County is primarily rural, with commercial and financial activity centered in Fairmont. There are seven banks and two thrifts competing in the market. CBT ranks first in the market, with 24 percent of aggregate deposits. NBM, located approximately 6 miles southwest of Fairmont, ranks sixth, with 4 percent.

CBT and NBM have been affiliated by common ownership since 1970. Shareholders of CBT Corp hold over 50 percent of the outstanding shares of NBM and five of the seven directors of NBM are also directors of CBT Corp. Given the existing level of control which CBT Corp. currently exercises over the affairs of NBM, consummation of the proposal will not have a significantly adverse impact on competition within the relevant geographic market.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served. We find the financial and managerial resources of CBT and NBM to be satisfactory. The future prospects of the proponents, individually and combined, are favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 26, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competititon.

* * *

FIRST OF AMERICA BANK, NATIONAL ASSOCIATION, Sault Ste. Marie, Michigan, and First of America Bank-Rudyard, Rudyard, Michigan

Names of banks and type of transaction	*Total assets*
First of America Bank, National Association, Sault Ste. Marie, Michigan (3547), with	$37,015,000
and First of America Bank-Rudyard, Rudyard, Michigan, with	14,306,000
merged January 1, 1986, under charter of the former and title of "First of America Bank-Sault Ste. Marie, National Association." The merged bank at date of merger had	51,322,000

* * *

THE FIRST NATIONAL BANK OF LYONS, Lyons, Nebraska, and Uehling State Bank, Uehling, Nebraska

Names of banks and type of transaction	*Total assets*
Uehling State Bank, Uehling, Nebraska, with	$ 417,000
and The First National Bank of Lyons, Lyons, Nebraska (6221) which had	23,691,000
merged January 1, 1986, under charter and title of the latter. The merged bank at date of merger had	24,108,000

* * *

JEFFERSON NATIONAL BANK,
Charlottesville, Virginia, and Bank of Greene, Ruckersville, Virginia

Names of banks and type of transaction	Total assets
Bank of Greene, Ruckersville, Virginia, with	$ 11,250,000
and Jefferson National Bank, Charlottesville, Virginia (6031), which had	1,074,663,000
merged January 1, 1986, under the charter and title of the latter. The merged bank at date of merger had	1,085,913,000

COMPTROLLER'S DECISION

On September 20, 1985, an application was filed with the Office of the Comptroller of the Currency to merge Bank of Greene, Ruckersville, Virginia (BOG), into Jefferson National Bank, Charlottesville, Virginia (JNB). The application was made pursuant to an Agreement and Plan of Merger finalized between BOG and JNB on July 31, 1985.

As of June 30, 1985, BOG, an independent bank, held total deposits of $10 million in one office located in Ruckersville, Greene County. As of the same date, JNB held total deposits of $928 million in 28 offices. JNB is a wholly owned subsidiary of Jefferson Bankshares, Inc., a one-bank holding company.

The relevant geographic market for this proposal is all of Greene County and the northeastern edge of Albemarle County. The only office of BOG is located in the market, and BOG derives almost of its deposits from within the market. BOG is one of two financial institutions operating in the market, and holds 34 percent of market deposits.

JNB operates no offices in the relevant market. The nearest office of JNB is located 11 miles southeast of Greene in Albemarle County. This proposal represents a market extension effort by JNB. Consummation of the proposal will merely replace one competitor in the market with another, while permitting JNB to enter a market in which it currently does not compete.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served. We find the financial and managerial resources of BOG and JNB to be satisfactory. The future prospects of the proponents, individually and combined, are favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 25, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

SOUTHEAST BANK, NATIONAL ASSOCIATION,
Miami, Florida, and Southeast Bank of St. Johns County, Ponte Vedra Beach, Florida

Names of banks and type of transaction	Total assets
Southeast Bank, National Association, Miami, Florida (15638), with	$9,870,109,000
and Southeast Bank of St. Johns County, Ponte Vedra Beach, Florida, with	12,619,000
merged January 1, 1986, under charter and title of the former. The merged bank at date of merger had	9,878,083,000

* * *

THE AMERICAN NATIONAL BANK OF LAWTON, Lawton Oklahoma, and First State Bank, Cache, Oklahoma

Names of banks and type of transaction	Total assets
First State Bank Cache, Oklahoma, with	$ 17,000,000
was purchased January 9 1986 by The American National Bank of Lawton, Lawton, Oklahoma (12067), which had	101,633,000
After the purchase was effected the receiving bank had	118,633,000

COMPTROLLER'S DECISION

On January 9, 1986, application was made to the Comptroller of the Currency to grant prior written approval for The American National Bank of Lawton, Lawton, Oklahoma (Assuming Bank), to purchase certain assets and assume certain liabilities of First State Bank of Cache, Cache, Oklahoma (First). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of First. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

At the close of business on January 7, 1986, First had total assets of approximately $17 million. The bank was declared insolvent by the Oklahoma State Banking Commissioner on January 9, 1986, and was placed in the hands of the FDIC as receiver. The Comptroller has now been requested to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of First.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve the transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the Cache community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Cache community.

The Comptroller finds the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, Assuming Bank's application to assume certain liabilities and purchase certain assets of First, as set forth in the agreement, is approved. The Comptroller further finds that the failure of First requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

January 9, 1986

Due to the emergency nature of the situation, a report was not requested from the Attorney General.

* * *

DARTMOUTH NATIONAL BANK,
Hanover, New Hampshire, and First Citizens National Bank, Newport, New Hampshire

Names of banks and type of transaction	*Total assets*
Dartmouth National Bank, Hanover, New Hampshire (1145), with	$105,827,000
and First Citizens National Bank, Newport, New Hampshire (888), with	24,590,000
merged January 10, 1986, under charter and title of the former. The merged bank at date of merger had	130,417,000

* * *

ZIONS FIRST NATIONAL BANK,
Salt Lake City, Utah, and Pioneer State Bank, Salt Lake City, Utah

Names of banks and type of transaction	*Total assets*
Zions First National Bank, Salt Lake City, Utah (4341), with	$2,288,123,000
Pioneer State Bank, Salt Lake City, Utah, with	11,356,000
merged January 24, 1986, under charter and title of the former. The merged bank at date of merger had	2,228,123,000

* * *

FIRST INTERSTATE BANK OF OREGON, NATIONAL ASSOCIATION,
Portland, Oregon, and Canby Union Bank, Canby, Oregon

Names of banks and type of transaction	*Total assets*
Canby Union Bank, Canby, Oregon, with	$ 27,501,000
was purchased January 31, 1986 by First Interstate Bank of Oregon, National Association, Portland, Oregon (1553), which had	5,442,369,000
After the purchase was effected, the receiving bank had	5,469,770,000

COMPTROLLER'S DECISION

On October 30, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to purchase the assets and assume the liabilities of Canby Union Bank, Canby, Oregon (Canby), by First Interstate Bank of Oregon, National Association, Portland, Oregon (FIOR). This application was based on an agreement finalized between the proponents on September 25, 1985.

As of June 30, 1985, Canby, an independent bank, had total deposits of $26.5 million and operated one office in Canby. On the same date, FIOR had total deposits of $4 billion and operated 153 offices. FIOR is 100 percent owned and controlled by First Interstate Bancorp, a multibank holding company.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a transaction that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." We find the financial and managerial resources of FIOR to be satisfactory. The future prospects of the resulting bank are considered favorable and it is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved

December 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition

* * *

FIRST NATIONAL BANK & TRUST COMPANY OF LINCOLN,
Lincoln, Nebraska, and The First National Bank of David City, David City, Nebraska

Names of banks and type of transaction	*Total assets*
The First National Bank of David City, David City, Nebraska (2902), with	$ 59,156,000
and First National Bank & Trust Company of Lincoln, Lincoln, Nebraska (1798), which had	975,245,000
merged February 1, 1986, under the charter and title of the latter. The merged bank at date of merger had	1,035,401,000

COMPTROLLER'S DECISION

On November 5, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge First National Bank of David City, David City, Nebraska (FNB-David City), with First National Bank and Trust Company of Lincoln, Lincoln, Nebraska (FNB-Lincoln) under the charter and title of the latter. This application was based on an agreement finalized between the proponents on October 21, 1985.

As of June 30, 1985, FNB-David City, a wholly owned subsidiary of First National David City Corporation, a one-bank holding company, had total deposits of $53 million and operated one office in David City. On the same date, FNB-Lincoln, a wholly owned subsidiary of FirsTier, Inc., a multi-bank holding company, had total deposits of $673 million and operated 4 offices.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a merger clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a transaction that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." We find the financial and managerial resources of FNB-Lincoln to be satisfactory. The future prospects of the resulting bank are considered favorable and it is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

December 31, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

PNC TRUST OF FLORIDA NATIONAL ASSOCIATION
Tampa, Florida, and Northeastern Trust Company of Florida, National Association, Vero Beach, Florida

Names of banks and type of transaction	*Total assets*
PNC Trust of Florida National Association, Tampa, Florida (18038), with	$1,049,000
and Northeastern Trust Company of Florida, National Association, Vero Beach, Florida (17562), with	1,090,000
merged February 3, 1986, under charter and title of the former. The merged bank at date of merger had	2,139,000

* * *

CENTERRE BANK, NATIONAL ASSOCIATION,
St. Louis, Missouri, and Centerre Bank of Florissant, Florissant, Missouri, and Centerre Bank of South County, National Association, St. Louis, Missouri, and Centerre Bank of Chesterfield, Chesterfield, Missouri

Names of banks and type of transaction	Total assets
Centerre Bank, National Association, St. Louis, Missouri (170), with	$3,054,980,000
and Centerre Bank of Florissant, Florissant, Missouri, with	148,154,000
and Centerre Bank of South County, National Association, St. Louis, Missouri, (17304), with	33,296,000
and Centerre Bank of Chesterfield, Chesterfield, Missouri, with	118,929,000
merged February 10, 1986, under charter 17304 and title "Centerre Bank, National Association," St. Louis County. The merged bank at date of merger had	3,355,229,000

* * *

PARK BANK OF FLORIDA,
St. Petersburg, Florida, and Chase Bank of Florida, National Association, St. Petersburg, Florida

Names of banks and type of transaction	Total assets
Park Bank of Florida, St. Petersburg, Florida, with	$592,900,000
was purchased February 14, 1986, by Chase Bank of Florida, National Association, St. Petersburg, Florida (21177) which had	N.A.
After the purchase was effected, the receiving bank had	

COMPTROLLER'S DECISION

On February 14, 1986, application was made to the Comptroller of the Currency to grant prior written approval for The Chase Bank of Florida, National Association, St. Petersburg, Florida (Assuming Bank), to purchase certain assets and assume certain liabilities of Park Bank of Florida, St. Petersburg, Florida (PBF). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of PBF. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

On February 14, 1986, due to the financial condition of PBF, the State Commissioner of Banking closed PBF and appointed the FDIC as receiver on the same date. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities, including all deposit liabilities of PBF.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the St. Petersburg community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of PBF, as set forth in the agreement, is approved. The Comptroller further finds that the failure of PBF requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies

and authorizes the transaction to be consummated immediately

By accepting approval and by consummating the purchase and assumption transaction, Assuming Bank agrees to be bound by the following conditions:

1. An initial minimum ratio of primary capital to total assets of no less than five and one-half percent ($5\frac{1}{2}\%$). The amount of intangible assets which may be included in capital for purposes of this assessment is limited to not more than twenty-five percent (25%) of tangible primary capital.

2. Maintain a ratio of primary capital to total assets that complies with 12 CFR Part 3; Minimum Capital Ratios.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. §1818(b)(1).

February 14, 1986

Due to the emergency nature of the situation a report was not requested from the Attorney General.

* * *

SOCIETY NATIONAL BANK OF CLEVELAND,
Cleveland, Ohio, and Centran Bank of Akron, Akron, Ohio

Names of banks and type of transaction	*Total assets*
Society National Bank of Cleveland, Cleveland, Ohio (14761), with	$2,417,607,000
and Centran Bank of Akron, Akron, Ohio with	320,087,000
merged February 17, 1986, under charter and title of the former. The merged bank at date of merger had	2,737,595,000

* * *

CENTRAL NATIONAL BANK OF CLEVELAND,
Cleveland, Ohio, and Society National Bank, Cleveland, Ohio

Names of banks and type of transaction	*Total assets*
Central National Bank of Cleveland, Cleveland, Ohio (4318), with	$2,487,148,000
and Society National Bank, Cleveland, Ohio (14761), with	2,417,607,000
merged February 18, 1986, under charter and title of the latter. The merged bank at date of merger had	4,513,441,000

* * *

NORSTAR BANK OF THE HUDSON VALLEY, NATIONAL ASSOCIATION,
Newburgh, New York, and One Branch of Chemical Bank, New York, New York

Names of banks and type of transaction	*Total assets*
One Branch of Chemical Bank, New York, New York, with	$ 32,994,000
was purchased February 18, 1986, by Norstar Bank of the Hudson Valley, National Association, Newburgh, New York, (1106), which had	583,116,000
After the purchase was effected, the receiving bank had	616,110,000

COMPTROLLER'S DECISION

On September 12, 1985, application was made to the Office of the Comptroller of the Currency by Norstar Bank of the Hudson Valley, National Association, Newburgh, New York (Norstar) for prior authorization to purchase the assets and assume the liabilities of the Wappingers Falls Branch of Chemical Bank, New York, New York, (Chemical Bank). This application was based on a written agreement finalized between the proponents on August 20, 1985.

As of June 30, 1985, Norstar, a wholly owned subsidiary of Norstar Bancorp, Inc., had total deposits of $511 million and operated 36 offices. On the same date, the Wappingers Falls branch of Chemical Bank had total deposits of $33 million.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets and assumption of liabilities that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served." We find the financial and managerial resources of Norstar and Chemical Bank to be satisfactory. The future prospects of the proponents, individually and combined, are considered favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

October 25, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

CITY NATIONAL BANK OF CLOQUET,
Cloquet, Minnesota, and Carlton National Bank, Carlton, Minnesota

Names of banks and type of transaction	*Total assets*
Carlton National Bank, Carlton, Minnesota (15825), with	$19,319,000
was purchased February 28, 1986, by City National Bank of Cloquet, Cloquet, Minnesota (15230), which had	29,609,000
After the purchase was effected, the receiving bank had	48,029,000

COMPTROLLER'S DECISION

On December 12, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization for City National Bank of Cloquet, Cloquet, Minnesota, (City), to purchase the assets and assume the liabilities of Carlton National Bank, Carlton, Minnesota (Carlton). The application is based on an agreement finalized between City and Carlton on September 20, 1985.

City had total assets of $29.6 million and total deposits of $26.3 million as of September 30, 1985, and operated one office in Cloquet. Carlton had total assets of $19.3 million and total deposits of $16.9 million as of September 30, 1985, and operated one office in Carlton.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase that has minimal or no adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the combined entity are considered good and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

January 25, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

MARK TWAIN SOUTH COUNTY BANK,
St. Louis County, Missouri, and Mark Twain Parkway Bank, St. Louis County, Missouri, and Mark Twain St. Louis Bank, National Association, St. Louis, Missouri, and Mark Twain Northland Bank, Jennings, Missouri, and Mark Twain National Bank, Ladue, Missouri, and Mark Twain St. Charles County Bank, N.A., St. Charles, Missouri, and Mark Twain Progress Bank, Fenton, Missouri, and Mark Twain State Bank, Bridgeton, Missouri

Names of banks and type of transaction	*Total assets*
Mark Twain South County Bank, St. Louis County, Missouri, with	$174,969,000
and Mark Twain Parkway Bank, St. Louis County, Missouri, with	104,740,000
and Mark Twain St. Louis Bank, National Association, St. Louis, Missouri (17422), with	56,329,000
and Mark Twain Northland Bank, Jennings, Missouri, with	126,664,000
and Mark Twain National Bank, Ladue, Missouri (16570), with	167,862,000
and Mark Twain St. Charles County Bank, N.A., St. Charles, Missouri (16510), with	85,446,000
and Mark Twain Progress Bank, Fenton, Missouri, with	63,052,000
and Mark Twain State Bank, Bridgeton, Missouri, with	142,529,000
merged February 28, 1986, under charter and title of Mark Twain Bank, National Association, Ladue, Missouri (16570). The merged bank at date of merger had	916,091,000

* * *

OLD NATIONAL BANK IN EVANSVILLE,
Evansville, Indiana, and Southern Indiana Bank and Trust Company, Newburgh, Indiana

Names of banks and type of transaction	*Total assets*
Southern Indiana Bank and Trust Company, Newburgh, Indiana, with	$ 10,340,000
and Old National Bank in Evansville, Evansville, Indiana (12444), which had	724,232,000
merged February 28, 1986, under the charter and title of the latter. The merged bank at date of merger had	734,572,000

COMPTROLLER'S DECISION

On November 5, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge Southern Indiana Bank and Trust Company, Newburgh, Indiana (Southern), into Old National Bank in Evansville, Evansville, Indiana (ONB). The application is based on an agreement finalized between Southern and ONB on September 18, 1985.

ONB, a wholly owned subsidiary of Old National Bancorp, had total assets of $724 million and total deposits of $567 million as of December 31, 1984, and operated eleven offices in Evansville. Southern had total assets of $10 million and total deposits of $9 million as of December 31, 1984, and operated two offices in Warrick County.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a merger clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a merger that has minimal or no adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served."

We find that the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the combined entity are considered good and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

January 27, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

REPUBLICBANK FIRST NATIONAL MIDLAND,
Midland, Texas, and RepublicBank, Midland, National Association, Midland, Texas

Names of banks and type of transaction	Total assets
RepublicBank First National Midland, Midland, Texas (17956), with	$814,994,000
RepublicBank Midland, National Association, Midland, Texas (16770), with	72,257,000
merged February 28, 1986, under charter and title of the former. The merged bank at date of merger had	887,251,000

* * *

UNITED BANK OF ILLINOIS, NATIONAL ASSOCIATION,
Rockford, Illinois, and United Bank of Rockford, Rockford, Illinois

Names of banks and type of transaction	Total assets
United Bank of Illinois, National Association, Rockford, Illinois (14533), with	$124,438,000
and United Bank of Rockford, Rockford, Illinois, with	21,071,000
merged February 28, 1986, under charter and title of the former. The merged bank at date of merger had	145,009,000

* * *

SUN BANK/SOUTH FLORIDA, NATIONAL ASSOCIATION,
Wilton Manors, Florida, and Sun Bank/Palm Beach County, National Association, Delray Beach, Florida

Names of banks and type of transaction	Total assets
Sun Bank/South Florida, National Association, Wilton Manors, Florida (14732), with	$1,053,290,000
and Sun Bank/Palm Beach County, National Association, Delray Beach, Florida (14556), with	523,778,000
merged March 1, 1986, under charter and title of the former. The merged bank at date of merger had	1,577,068,000

* * *

NORSTAR BANK, NATIONAL ASSOCIATION,
Buffalo, New York, and Niagara County Savings Bank, Niagara Falls, New York

Names of banks and type of transaction	Total assets
Niagara County Savings Bank, Niagara Falls, New York, with	$ 275,040,000
was purchased March 3, 1986, by Norstar Bank, National Association, Buffalo, New York, (15080), which had	1,034,081,000
After the purchase was effected, the receiving bank had	1,309,121,000

COMPTROLLER'S DECISION

On December 27, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to purchase the assets and assume the liabilities of Niagara County Savings Bank, Niagara Falls, New York (Niagara), by Liberty Norstar Bank, National Association (Norstar). This application was based on an agreement finalized between the proponents on December 13, 1985.

As of December 31, 1985, Norstar, a wholly owned subsidiary of Norstar Bancorp, Inc., had total deposits of $893 million and operated 39 offices. On the same date, Niagara had total deposits of $241 million and operated six offices.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets and assumption of liabilities that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find the financial and managerial resources of Norstar to be satisfactory. The future prospects of the bank are considered favorable, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved subject to the condition noted in a separate communication to Liberty.

January 29, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST NATIONAL BANK OF PLAINVIEW,
Plainview, Texas, and The City National Bank of Plainview, Plainview, Texas

Names of banks and type of transaction	*Total assets*
The City National Bank of Plainview, Plainview, Texas (14015), with	$ 48,357,000
was purchased March 6, 1986 by First National Bank of Plainview, Plainview, Texas (15132), which had	75,564,000
After the purchase was effected, the receiving bank had	123,921,000

COMPTROLLER'S DECISION

On March 6, 1986, application was made to the Comptroller of the Currency to grant prior written approval for First National Bank of Plainview, Plainview, Texas (Assuming Bank), to purchase certain assets and assume certain liabilities of The City National Bank of Plainview, Plainview, Texas (CNB). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of CNB. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

On March 6, 1986, due to the financial condition of CNB, the Comptroller of the Currency closed CNB and appointed the FDIC as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities, including all deposit liabilities, of CNB.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Plainview community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of CNB, as set forth in the agreement, is approved. The Comptroller further finds that the failure of CNB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

March 6, 1986

Due to the emergency nature of the situation, a report was not requested from the Attorney General.

* * *

THE FIRST NATIONAL BANK OF TEKAMAH,
Tekamah, Nebraska, and Nebraska National Bank, Omaha, Nebraska

Names of banks and type of transaction	*Total assets*
The First National Bank of Tekamah, Tekamah, Nebraska (4324), with	$21,166,000
was purchased March 6, 1986, by Nebraska National Bank, Omaha, Nebraska (17537), which had	17,325,000
After the purchase was effected, the receiving bank had	38,491,000

COMPTROLLER'S DECISION

On March 6, 1986, application was made to the Comptroller of the Currency to grant prior written approval for Nebraska National Bank, Omaha, Nebraska (Assuming Bank), to purchase certain assets and assume certain liabilities of The First National Bank of Tekamah, Tekamah, Nebraska (FNB). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of FNB. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

On March 6, 1986, due to the financial condition of FNB, the Comptroller of the Currency closed FNB and appointed the FDIC as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities, including all deposit liabilities, of FNB.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Tekamah community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of FNB, as set forth in the agreement, is approved. The Comptroller further finds that the failure of FNB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

March 6, 1986

Due to the emergency nature of the situation, a report was not requested from the Attorney General.

* * *

NCNB NATIONAL BANK OF FLORIDA,
Tampa, Florida, and Pan American Bank of Jacksonville, National Association, Jacksonville, Florida

Names of banks and type of transaction	*Total assets*
NCNB National Bank of Florida, Tampa, Florida (17775), with	$5,418,676,000
and Pan American Bank of Jacksonville, National Association, Jacksonville, Florida (21022), with	12,250,000
merged March 8, 1986, under charter and title of the former. The merged bank at date of merger had	5,430,926,000

* * *

THE HARLINGEN NATIONAL BANK,
Harlingen, Texas, and Harlingen National Bank South, Harlingen, Texas

Names of banks and type of transaction	*Total assets*
The Harlingen National Bank, Harlingen, Texas (14776), with	$103,796,000
and Harlingen National Bank South, Harlingen, Texas (17453), with	9,624,000
merged March 10, 1986, under charter and title of the former. The merged bank at date of merger had	111,920,000

* * *

SOUTHERN NATIONAL BANK OF NORTH CAROLINA,
Lumberton, North Carolina, and Two Branches of First Union National Bank, Charlotte, North Carolina

Names of banks and type of transaction	*Total assets*
Two Branches of First Union National Bank, Charlotte, North Carolina (15650), with	$ 45,990,000
were purchased March 10, 1986, by Southern National Bank of North Carolina, Lumberton, North Carolina (10610), which had	1,352,266,000
After the purchase was effected, the receiving bank had	1,398,256,000

COMPTROLLER'S DECISION

On December 12, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization for Southern National Bank of North Carolina, Lumberton, North Carolina (SNB) to purchase the assets and assume the liabilities of two branches of First Union National Bank, Charlotte, North Carolina (First Union). This application was filed pursuant to an agreement finalized between the proponents on October 16, 1985.

As of August 31, 1985, the two branches of First Union, located in Statesville and Hickory, North Carolina, held total deposits of $7 million and $39 million, respectively. On the same date, SNB had total deposits of $1.2 billion in 93 offices. SNB is wholly owned and operated by Southern National Corporation.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets and assumption of liabilities that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find that the financial and managerial resources of SNB and First Union are satisfactory. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 3, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

MERCANTILE TRUST COMPANY, NATIONAL ASSOCIATION,
St. Louis, Missouri, and Gravois Mercantile National Bank, St. Louis, Missouri, and Clayton Mercantile National Bank, Clayton, Missouri, and Mercantile Bank of South County, National Association, St. Louis, Missouri, and Mercantile-Commerce Trust Company, St. Louis, Missouri, and Lewis and Clark Mercantile Bank, St. Louis County, Missouri, and Mercantile National Bank of St. Louis County, Chesterfield, Missouri

Names of banks and type of transaction	*Total assets*
Mercantile Trust Company, National Association, St. Louis, Missouri (15452), with	$3,852,670,000
and Gravois Mercantile National Bank, St. Louis, Missouri, (21073), with	269,610,000
and Clayton Mercantile National Bank, Clayton, Missouri (18006), with	38,275,000
and Mercantile Bank of South County, National Association, St. Louis, Missouri (17297), with	28,495,000
and Mercantile-Commerce Trust Company, St. Louis, Missouri, with	133,697,000
and Lewis and Clark Mercantile Bank, St. Louis County, Missouri, with	78,852,000
Mercantile National Bank of St. Louis County, Chesterfield, Missouri (16360), with	149,271,000
merged March 13, 1986, under charter 21073 and title of "Mercantile Trust Company, National Association," St. Louis, Missouri. The merged bank at date of merger had	4,354,110,000

* * *

BANK OF BOSTON TRUST COMPANY OF SOUTHWEST FLORIDA, N.A.,
Sarasota, Florida, and Bank of Boston–Florida, National Association, Palm Beach, Florida

Names of banks and type of transaction	*Total assets*
Bank of Boston Trust Company of Southwest Florida, N.A., Sarasota, Florida (17240), with	$1,551,000
and Bank of Boston–Florida, National Association, Palm Beach, Florida (17277), with	1,435,000
merged March 18, 1986, under charter and title of the former. The merged bank at date of merger had	2,986,000

* * *

NATIONAL BANK OF SARASOTA, NATIONAL ASSOCIATION,
Sarasota, Florida, and Gulf Coast National Bank, Sarasota, Florida

Names of banks and type of transaction	*Total assets*
National Bank of Sarasota, National Association, Sarasota, Florida (14844), with	$170,059,000
and Gulf Coast National Bank, Sarasota, Florida (15107), with	134,150,000
merged March 21, 1986, under charter and title of the former. The merged bank at date of merger had	304,209,000

* * *

BOATMEN'S UNION NATIONAL BANK,
Springfield, Missouri, and Boatmen's Bank of Lockwood, Lockwood, Missouri, and Boatmen's Bank of Aurora, Aurora, Missouri

Names of banks and type of transaction	*Total assets*
Boatmen's Union National Bank, Springfield, Missouri (5209), with	$481,566,000
and Boatmen's Bank of Lockwood, Lockwood, Missouri, with	27,562,000
and Boatmen's Bank of Aurora, Aurora, Missouri, with	67,582,000
merged March 24, 1986, under charter and title of The Boatmen's National Bank of Springfield, Springfield, Missouri (5209). The merged bank at date of merger had	575,385,000

* * *

BANK OF WOODFOREST,
Houston, Texas, and Woodforest National Bank, Houston, Texas

Names of banks and type of transaction	Total assets
Bank of Woodforest, Houston, Texas, with	$40,945,000
and Woodforest National Bank, Houston, Texas (16892), which had	39,595,000
consolidated March 31, 1986, under the charter and title of the latter. The consolidated bank at date of consolidation had	80,540,000

COMPTROLLER'S DECISION

On December 27, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to consolidate Bank of Woodforest, Houston, Texas (BOW), with Woodforest National Bank, Houston, Texas (WNB). This application was based on an agreement finalized between the proponents on December 1, 1985.

As of December 31, 1985, BOW had approximately $38 million in total deposits and operated one banking office. BOW is wholly owned and controlled by Woodforest Bancshares, Inc., a one-bank holding company. On the same date, WNB had total deposits of $34 million and operated one banking office. WNB is controlled by the same individuals who control Woodforest Bancshares, Inc.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a consolidation clearly has minimal or no adverse competitive effects. Because the banks are affiliated the Office finds that the proposal satisfies the Office's criteria for a merger that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served."

We find that the financial and managerial resources of BOW and WNB do not raise concerns that would cause the application to be disapproved. The future prospects of the combined entity are considered good and the resulting bank is expected to meet the convenience and needs of the communities to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved

February 28, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

DOMINION BANK OF NORTHERN VIRGINIA, NATIONAL ASSOCIATION,
Vienna, Virginia, and Continental Bank and Trust Company, Springfield, Virginia

Names of banks and type of transaction	*Total assets*
Continental Bank and Trust Company, Springfield, Virginia, with	$ 28,216,000
and Dominion Bank of Northern Virginia, National Association, Vienna, Virginia (14904), which had	323,949,000
merged March 31, 1986, under the charter and title of the latter. The merged bank at date of merger had	353,244,000

COMPTROLLER'S DECISION

On July 30, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Continental Bank and Trust Company, Springfield, Virginia (CBT), into Dominion Bank of Northern Virginia, National Association, Vienna, Virginia (Dominion). This application is based on an agreement finalized between the proponents on April 8, 1985.

As of March 30, 1985, CBT, an independent bank, held total deposits of $25 million in two offices. As of the same date, Dominion held total deposits of $268 million in 28 offices throughout northern Virginia. Dominion is a subsidiary of Dominion Bankshares Corporation, Roanoke, Virginia, the third largest multi-bank holding company in Virginia.

The relevant geographic market for this proposal is the portion of Fairfax County which includes Springfield and adjacent areas, as well as contiguous portions of the City of Alexandria. CBT operates both of its offices in this market, and acquires approximately 75 percent of its deposits in the area.

Within this market, Dominion operates 14 offices and ranks 6th of ten commercial banks with 7 percent of commercial bank deposits. CBT, with a 1 percent market share, ranks 10th. After the proposed merger, the resulting bank will hold 8 percent of market deposits and rank 5th among commercial banks. The market also contains eleven savings and loan institutions, and considerable additional competition is provided by financial institutions located in nearby Washington, D.C. and suburban Maryland. Given the number and size of remaining competitors in the market, consummation of this proposal would not have a significantly adverse effect on competition in the relevant geographic market.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served." The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, as conditioned in the transmittal letter.

October 25, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST NATIONAL BANK OF GREEN RIVER,
Green River, Wyoming, and First Wyoming Bank National Association–Green River, Green River, Wyoming

Names of banks and type of transaction	*Total assets*
First National Bank of Green River, Green River, Wyoming (10698), with	$25,556,000
was purchased March 31, 1986, by First Wyoming Bank National Association–Green River, Green River, Wyoming (17316), which had	5,488,000
After the purchase was effected, the receiving bank had	30,722,000

COMPTROLLER'S DECISION

On November 27, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to purchase the assets and assume the liabilities of First National Bank of Green River, Green River, Wyoming (FNB), by First Wyoming Bank, National Association–Green River, Green River, Wyoming (FWB). This application was based on an agreement finalized between the proponents on October 15, 1985.

As of December 31, 1984, FWB, a wholly owned subsidiary of First Wyoming Bancorporation, Cheyenne, Wyoming, had total deposits of $2.6 million and operated one office. On the same date, FNB, a wholly owned subsidiary of Green River Corporation, had total deposits of $21.4 million and operated one office.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets and assumption of liabilities that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served." We find the financial and managerial resources of FWB and FNB to be satisfactory. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 5, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

GREENBRIER VALLEY BANK,
Lewisburg, West Virginia, and The First National Bank of Alderson, Alderson, West Virginia

Names of banks and type of transaction	Total assets
Greenbrier Valley Bank, Lewisburg, West Virginia, with	$46,261,000
and The First National Bank of Alderson, Alderson, West Virginia (5903), which had	36,307,000
consolidated March 31, 1986, under charter of the latter and title of "Greenbrier Valley National Bank." At the time of consolidation the consolidated bank had	82,568,000

COMPTROLLER'S DECISION

On April 8, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to consolidate Greenbrier Valley Bank, Lewisburg, West Virginia (Valley) and The First National Bank of Alderson, Alderson, West Virginia (FNB). This application was filed pursuant to an Agreement to Consolidate finalized between Valley and FNB on February 12, 1985.

As of December 31, 1984, FNB, an independent bank, held $32 million in deposits in two offices, located in Alderson and Rupert. As of the same date, Valley held $41 million in deposits in one office. Valley is a subsidiary of Alleghany Bankshares, a one bank holding company

Both FNB and Valley gather the bulk of their deposits from and operate their offices in Greenbrier County. The county is bisected by mountain ranges which run from north to south. Of the seven banks located in the county, each currently operates offices solely in either the eastern or the western section of the county.

FNB operates in the western portion of the county, serving an area which encompasses the towns of Alderson and Rupert and includes rural portions of adjacent Summers and Fayette Counties. FNB is the largest of the three banks operating in western Greenbrier County, with 40 percent of market deposits.

Valley's market encompasses most of eastern Greenbrier County including Lewisburg and extending north to towns located along the state highway. Valley ranks third among the four commercial banks which serve the eastern portion of the County, with 23 percent of market deposits. The market also includes an office of one statewide savings bank.

The service areas of the two banks overlap slightly in a rural section of central Greenbrier County, which is considered to be the relevant geographic market for this proposal. An analysis of deposit accounts conducted by the applicants revealed that both FNB and Valley derive nominal deposits from within the market area. A major highway provides residents of the relevant market with access to banks in both the eastern and western portions of the county. Given the number of remaining market choices available to depositors from the relevant geographic market, the proposed consolidation would not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served." We find the financial and managerial resources of both banks to be satisfactory. The future prospects of the proponents, individually and combined, are favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, as conditioned in the transmittal letter.

February 27, 1986

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

Statistical Tables

Assets, liabilities and capital accounts of national banks, December 31, 1984, and December 31, 1985
(Dollar amounts in millions)

	December 31, 1984 4,885 banks	December 31, 1985 4,957 banks*	Change December 31, 1984–December 31, 1985 Fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$ 112,139	$ 124,736	$ 12,597	11.2
Interest-bearing balances	85,981	89,365	3,384	3.9
Securities	210,938	251,020	40,082	19.0
Federal funds sold and securities purchased under agreements to resell	66,679	77,640	10,961	16.4
Loans and leases, net of unearned income	924,291	999,793	75,502	8.2
Less allowance for loan and lease losses	11,629	14,410	2,781	23.9
Less allocated transfer risk reserve	28	59	31	110.7
Net loans and leases	912,633	985,323	72,690	8.0
Premises and fixed assets	22,935	24,401	1,466	6.4
Other real estate owned	3,323	3,891	568	17.1
Other assets	82,285	77,060	−5,225	−6.3
Total assets	1,496,913	1,633,437	136,524	9.1
Liabilities				
Noninterest-bearing deposits in domestic offices	249,719	271,648	21,929	8.8
Interest-bearing deposits in domestic offices	694,242	761,988	67,746	9.8
Total domestic deposits	943,961	1,033,636	89,675	9.5
Noninterest-bearing deposits in foreign offices	8,395	8,869	474	5.6
Interest-bearing deposits in foreign offices	197,622	199,413	1,791	0.9
Total foreign deposits	206,017	208,282	2,265	1.1
Total deposits	1,149,978	1,241,918	91,940	8.0
Federal funds purchased and securities sold under agreements to repurchase	128,864	154,845	25,981	20.2
Interest-bearing demand notes issued to the U.S. Treasury	8,297	15,258	6,961	83.9
Other liabilities for borrowed money	35,129	43,047	7,918	22.5
Mortgage indebtedness and liability for capitalized leases	1,770	1,619	−151	−8.5
Subordinated notes and debentures	6,160	8,699	2,539	41.2
All other liabilities	78,717	71,584	−7,133	−9.1
Total liabilities	1,408,915	1,536,969	128,054	9.1
Limited-life preferred stock	74	9	−65	−87.8
Equity capital				
Perpetual preferred stock	317	409	92	29.0
Common stock	16,035	16,668	633	3.9
Surplus	27,664	30,627	2,963	10.7
Undivided profits and capital reserves	44,236	49,043	4,807	10.9
Cumulative foreign currency translation adjustments	−329	−290	39	−11.9
Total equity capital	87,924	96,458	8,534	9.7
Total liabilities, limited-life preferred stock, and equity capital	1,496,913	1,633,437	136,524	9.1

*Reporting national banks

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985
(Dollar amounts in millions)

	Total United States	*Alabama*	*Alaska*	*Arizona*	*Arkansas*	*California*	*Colorado*
Number of banks	4,957	54	6	14	81	170	240
Assets							
Cash and balances due from depository institutions							
Noninterest-bearing balances and currency and coin	$ 124,736	$ 1,036	$ 196	$ 1,462	$ 690	$16,073	$ 2,157
Interest-bearing balances	89,365	212	1	60	162	14,212	350
Securities	251,020	2,904	527	2,474	2,184	15,674	2,978
Federal funds sold and securities purchased under agreements to resell	77,640	464	86	505	851	4,630	1,365
Loans and leases, net of unearned income	999,793	7,519	1,547	10,918	5,186	148,123	10,232
Less allowance for loan and lease losses	14,410	101	17	136	77	2,527	169
Less allocated transfer risk reserve	59	0	0	0	0	49	0
Net loans and leases	985,323	7,419	1,530	10,782	5,109	145,547	10,063
Premises and fixed assets	24,401	232	92	320	176	3,319	325
Other real estate owned	3,891	20	15	29	40	777	156
Other assets	77,060	370	45	390	215	10,160	466
Total assets	1,633,437	12,655	2,492	16,021	9,427	210,393	17,861
Liabilities							
Noninterest-bearing deposits in domestic offices	271,648	2,476	641	3,284	1,619	33,661	4,317
Interest-bearing deposits in domestic offices	761,988	7,081	1,250	10,216	6,393	94,226	10,116
Total domestic deposits	1,033,636	9,558	1,891	13,500	8,012	127,887	14,432
Noninterest-bearing deposits in foreign offices	8,869	0	1	0	1	1,806	0
Interest-bearing deposits in foreign offices	199,413	147	—	24	1	39,929	244
Total foreign deposits	208,282	147	1	24	3	41,736	244
Total deposits	1,241,918	9,705	1,892	13,524	8,015	169,623	14,676
Federal funds purchased and securities sold under agreements to repurchase	154,845	1,401	216	864	514	12,137	1,436
Interest-bearing demand notes issued to the U.S. Treasury	15,258	48	11	201	37	1,293	91
Other liabilities for borrowed money	43,047	218	33	58	29	4,654	36
Mortgage indebtedness and liability for capitalized leases	1,619	4	2	15	8	285	19
Subordinated notes and debentures	8,699	19	0	40	19	2,510	31
All other liabilities	71,584	301	33	403	104	10,571	324
Total liabilities	1,536,969	11,695	2,186	15,104	8,725	201,072	16,614
Limited-life preferred stock	9	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	409	0	0	2	14	112	1
Common stock	16,668	43	65	74	148	2,726	232
Surplus	30,627	418	87	189	148	3,066	436
Undivided profits and capital reserves	49,043	500	153	652	392	3,581	577
Cumulative foreign currency translation adjustments	-290	0	0	0	0	-164	0
Total equity capital	96,458	961	306	917	702	9,321	1,247
Total liabilities, limited-life preferred stock, and equity capital	1,633,437	12,655	2,492	16,021	9,427	210,393	17,861
Number of banks with foreign offices	147	2	1	2	1	6	2

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued

(Dollar amounts in millions)

	Connecticut	Delaware	Dist. of Col.	Florida	Georgia	Hawaii	Idaho
Number of banks	17	15	18	178	54	3	7
Assets							
Cash and balances due from depository institutions							
Noninterest-bearing balances and currency and coin	$ 1,912	$ 199	$ 1,100	$ 6,211	$ 2,842	$ 20	$ 426
Interest-bearing balances	582	71	2,065	1,273	1,404	2	465
Securities	3,036	304	2,386	13,028	4,010	36	902
Federal funds sold and securities purchased under agreements to resell	234	52	563	2,865	879	15	145
Loans and leases, net of unearned income	9,486	10,062	8,378	37,899	16,172	115	3,579
Less allowance for loan and lease losses	100	260	124	459	212	1	46
Less allocated transfer risk reserve	1	0	0	1	0	0	0
Net loans and leases	9,385	9,802	8,254	37,439	15,960	114	3,534
Premises and fixed assets	252	62	199	1,518	442	3	92
Other real estate owned	18	1	30	86	32	—	29
Other assets	267	189	415	1,504	889	3	103
Total assets	15,685	10,680	15,010	63,926	26,458	194	5,696
Liabilities							
Noninterest-bearing deposits in domestic offices	4,546	286	2,855	13,316	6,170	45	783
Interest-bearing deposits in domestic offices	7,427	3,563	7,248	38,797	12,394	130	3,850
Total domestic deposits	11,973	3,849	10,103	52,113	18,564	175	4,633
Noninterest-bearing deposits in foreign offices	6	0	5	11	42	0	0
Interest-bearing deposits in foreign offices	506	101	2,030	813	712	0	0
Total foreign deposits	512	101	2,035	824	754	0	0
Total deposits	12,485	3,950	12,138	52,937	19,318	175	4,633
Federal funds purchased and securities sold under agreements to repurchase	1,636	2,367	1,352	5,378	4,081	—	500
Interest-bearing demand notes issued to the U.S. Treasury	233	4	136	178	13	1	22
Other liabilities for borrowed money	117	3,422	92	483	148	0	40
Mortgage indebtedness and liability for capitalized leases	19	3	10	60	27	1	5
Subordinated notes and debentures	84	30	119	126	231	2	22
All other liabilities	278	290	349	927	1,132	1	118
Total liabilities	14,853	10,066	14,197	60,089	24,950	180	5,340
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	0	13	0	2	0	0	1
Common stock	110	160	78	637	189	8	44
Surplus	290	233	188	1,614	465	5	189
Undivided profits and capital reserves	433	208	547	1,584	853	1	123
Cumulative foreign currency translation adjustments	0	0	0	0	0	0	0
Total equity capital	832	614	814	3,837	1,508	14	356
Total liabilities, limited-life preferred stock, and equity capital	15,685	10,680	15,010	63,926	26,458	194	5,696
Number of banks with foreign offices	2	1	6	14	3	0	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Illinois	*Indiana*	*Iowa*	*Kansas*	*Kentucky*	*Louisiana*	*Maine*
Number of banks	401	110	111	167	78	71	8
Assets							
Cash and balances due from depository institutions							
Noninterest-bearing balances and currency and coin	$ 6,607	$ 2,383	$ 897	$ 840	$ 1,209	$ 1,560	$ 171
Interest-bearing balances	8,687	1,119	98	97	84	520	16
Securities	18,904	5,548	2,451	2,969	2,890	4,465	423
Federal funds sold and securities purchased under agreements to resell	4,425	1,606	1,008	916	759	1,119	109
Loans and leases, net of unearned income	63,038	14,196	4,473	5,156	7,169	10,366	1,498
Less: allowance for loan and lease losses	1,088	166	85	78	89	154	16
Less: allocated transfer risk reserve	0	0	0	0	0	0	0
Net loans and leases	61,950	14,030	4,388	5,077	7,080	10,212	1,483
Premises and fixed assets	1,265	323	138	163	199	435	35
Other real estate owned	161	47	67	34	18	65	1
Other assets	4,348	694	261	213	216	345	31
Total assets	106,348	25,750	9,306	10,309	12,454	18,721	2,269
Liabilities							
Noninterest-bearing deposits in domestic offices	15,016	4,791	1,806	1,781	2,422	3,742	441
Interest-bearing deposits in domestic offices	42,522	15,678	5,906	6,872	7,264	11,621	1,503
Total domestic deposits	57,538	20,469	7,713	8,653	9,686	15,364	1,944
Noninterest-bearing deposits in foreign offices	498	0	0	0	6	0	0
Interest-bearing deposits in foreign offices	21,265	312	16	0	81	21	0
Total foreign deposits	21,763	312	16	0	88	21	0
Total deposits	79,302	20,781	7,729	8,653	9,774	15,385	1,944
Federal funds purchased and securities sold under agreements to repurchase	9,124	2,268	745	595	1,301	1,517	125
Interest-bearing demand notes issued to the U.S. Treasury	2,962	277	45	72	196	37	20
Other liabilities for borrowed money	4,045	121	9	15	72	48	12
Mortgage indebtedness and liability for capitalized leases	38	34	21	4	23	42	2
Subordinated notes and debentures	509	16	24	8	5	18	1
All other liabilities	3,663	605	119	161	203	241	16
Total liabilities	99,642	24,101	8,692	9,507	11,574	17,288	2,118
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	10	3	3	1	—	0	0
Common stock	1,888	230	98	128	103	194	20
Surplus	2,381	438	160	209	152	398	38
Undivided profits and capital reserves	2,405	977	354	464	625	841	93
Cumulative foreign currency translation adjustments	22	0	0	0	0	0	0
Total equity capital	6,706	1,649	614	802	881	1,433	151
Total liabilities, limited-life preferred stock, and equity capital	106,348	25,750	9,306	10,309	12,454	18,721	2,269
Number of banks with foreign offices	5	3	1	0	1	2	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Maryland	Massa-chusetts	Michigan	Minnesota	Mississippi	Missouri	Montana
Number of banks	25	58	119	212	33	126	55
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 1,538	$ 3,494	$ 3,138	$ 2,613	$ 651	$ 3,207	$ 271
Interest-bearing balances	646	2,870	2,783	1,999	113	576	79
Securities	3,136	4,912	7,388	7,208	2,386	4,152	597
Federal funds sold and securities purchased under agreements to resell	1,010	850	1,844	2,050	493	3,137	597
Loans and leases, net of unearned income	10,961	27,805	22,005	21,639	4,526	13,049	2,136
Less allowance for loan and lease losses	194	406	280	338	66	178	35
Less allocated transfer risk reserve	1	1	0	1	0	0	0
Net loans and leases	10,767	27,398	21,725	21,299	4,460	12,871	2,101
Premises and fixed assets	233	568	455	289	179	462	56
Other real estate owned	15	19	95	117	33	60	26
Other assets	578	1,925	912	2,164	190	492	113
Total assets	17,923	42,037	38,339	37,739	8,504	24,958	3,840
Liabilities							
Noninterest-bearing deposits in domestic offices	3,746	7,802	6,928	5,999	1,528	6,008	572
Interest-bearing deposits in domestic offices	8,486	16,694	21,959	18,188	5,270	12,283	2,611
Total domestic deposits	12,233	24,496	28,887	24,187	6,798	18,291	3,184
Noninterest-bearing deposits in foreign offices	1	316	20	16	0	0	0
Interest-bearing deposits in foreign offices	975	6,679	1,479	2,449	15	679	0
Total foreign deposits	976	6,995	1,499	2,465	15	679	0
Total deposits	13,208	31,491	30,386	26,652	6,813	18,970	3,184
Federal funds purchased and securities sold under agreements to repurchase	2,457	4,488	3,617	5,452	923	3,396	300
Interest-bearing demand notes issued to the U.S. Treasury	306	406	573	616	15	222	14
Other liabilities for borrowed money	194	1,333	314	609	55	121	1
Mortgage indebtedness and liability for capitalized leases	34	22	34	35	4	88	11
Subordinated notes and debentures	101	102	141	309	10	11	17
All other liabilities	529	1,948	987	1,967	132	511	63
Total liabilities	16,828	39,790	36,053	35,640	7,951	23,319	3,589
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	0	0	1	11	0	4	2
Common stock	95	173	360	388	53	229	79
Surplus	402	749	670	546	439	428	85
Undivided profits and capital reserves	597	1,331	1,260	1,155	61	977	85
Cumulative foreign currency translation adjustments	0	-6	-4	—	0	0	0
Total equity capital	1,094	2,247	2,286	2,100	553	1,638	251
Total liabilities, limited-life preferred stock, and equity capital	17,923	42,037	38,339	37,739	8,504	24,958	3,840
Number of banks with foreign offices	3	4	3	4	1	4	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina
Number of banks	120	6	24	71	45	104	17
Assets							
Cash and balances due from depository institutions							
Noninterest bearing balances and currency and coin	$1,058	$ 386	$ 271	$ 4,239	$ 437	$ 16,442	$ 2 755
Interest bearing balances	61	182	31	964	66	25 452	1 452
Securities	2,325	667	606	9,700	1,364	32,866	8 262
Federal funds sold and securities purchased under agreements to resell	904	43	103	882	396	16 059	1 212
Loans and leases net of unearned income	4,819	3,837	2,146	26,267	3,197	172,150	22 975
Less allowance for loan and lease losses	81	71	20	319	42	1,947	348
Less allocated transfer risk reserve	0	0	0	0	0	—	0
Net loans and leases	4,738	3,766	2,126	25,948	3,155	170,202	22 627
Premises and fixed assets	161	127	45	657	114	3,749	570
Other real estate owned	79	19	2	39	22	306	14
Other assets	255	78	53	1,202	117	27,506	1 416
Total assets	9,581	5,268	3,236	43,631	5,670	292,581	38,308
Liabilities							
Noninterest bearing deposits in domestic offices	1,864	842	630	10,928	898	36,336	6,255
Interest bearing deposits in domestic offices	5,992	2,094	2,128	25,286	3,875	71 015	17,404
Total domestic deposits	7,856	2,935	2,758	36,214	4,772	107,352	23,660
Noninterest bearing deposits in foreign offices	0	0	0	—	0	5,686	7
Interest bearing deposits in foreign offices	0	0	0	302	0	97,026	2,097
Total foreign deposits	0	0	0	302	0	102,712	2,104
Total deposits	7,856	2,935	2,758	36,515	4,772	210,064	25 764
Federal funds purchased and securities sold under agreements to repurchase	799	1,566	198	2,994	396	18,094	8 358
Interest bearing demand notes issued to the U S Treasury	36	16	22	231	17	1 453	323
Other liabilities for borrowed money	3	95	5	144	11	17 167	398
Mortgage indebtedness and liability for capitalized leases	31	3	4	22	3	158	78
Subordinated notes and debentures	29	0	4	84	12	1,714	133
All other liabilities	126	98	39	1,028	66	27 448	1 158
Total liabilities	8,881	4,714	3,030	41,018	5,278	276,098	36 212
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	1	0	0	5	0	13	0
Common stock	93	131	14	471	94	2,495	264
Surplus	147	252	51	643	140	5,279	465
Undivided profits and capital reserves	460	171	140	1,494	159	8,828	1 368
Cumulative foreign currency translation adjustments	0	0	0	—	0	-131	—
Total equity capital	700	554	205	2,613	393	16,484	2,097
Total liabilities limited-life preferred stock, and equity capital	9,581	5,268	3,236	43,631	5,670	292,581	38 308
Number of banks with foreign offices	0	0	0	6	0	10	3

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued

(Dollar amounts in millions)

	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
Number of banks	42	144	231	8	184	6	20
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 259	$ 4,675	$ 1,567	$ 959	$ 6,490	$ 487	$ 664
Interest-bearing balances	32	2,861	390	272	4,963	386	106
Securities	733	11,821	5,560	2,021	18,076	1,376	1,355
Federal funds sold and securities purchased under agreements to resell	325	3,761	1,274	859	2,865	446	842
Loans and leases, net of unearned income	1,689	37,105	10,978	8,326	56,491	5,806	4,945
Less allowance for loan and lease losses	27	481	226	86	753	84	60
Less allocated transfer risk reserve	0	0	0	0	4	0	0
Net loans and leases	1,663	36,624	10,752	8,240	55,735	5,722	4,885
Premises and fixed assets	43	939	323	168	1,074	101	201
Other real estate owned	17	66	161	78	76	4	8
Other assets	69	1,773	522	934	6,003	582	212
Total assets	3,140	62,520	20,550	13,530	95,281	9,103	8,273
Liabilities							
Noninterest-bearing deposits in domestic offices	447	10,311	3,673	1,963	14,603	1,003	1,954
Interest-bearing deposits in domestic offices	2,271	36,846	13,366	7,466	45,466	4,575	4,431
Total domestic deposits	2,719	47,157	17,039	9,429	60,069	5,578	6,385
Noninterest-bearing deposits in foreign offices	0	6	0	0	388	1	0
Interest-bearing deposits in foreign offices	0	805	143	56	5,744	995	0
Total foreign deposits	0	811	143	56	6,132	995	0
Total deposits	2,719	47,968	17,182	9,486	66,201	6,574	6,385
Federal funds purchased and securities sold under agreements to repurchase	106	7,848	1,127	1,905	13,106	787	1,116
Interest-bearing demand notes issued to the U S Treasury	13	397	156	55	911	82	59
Other liabilities for borrowed money	8	571	341	196	3,388	955	83
Mortgage indebtedness and liability for capitalized leases	5	65	10	11	83	4	7
Subordinated notes and debentures	16	32	27	44	701	12	26
All other liabilities	55	1,388	279	999	5,539	192	95
Total liabilities	2,924	58,268	19,121	12,695	89,927	8,606	7,771
Limited-life preferred stock	0	0	0	0	—	0	0
Equity capital							
Perpetual preferred stock	0	—	42	1	1	20	0
Common stock	59	664	284	95	605	46	51
Surplus	59	1,477	408	205	1,624	130	136
Undivided profits and capital reserves	99	2,110	695	535	3,130	302	316
Cumulative foreign currency translation adjustments	0	0	0	0	-6	0	0
Total equity capital	217	4,252	1,429	835	5,354	497	502
Total liabilities, limited-life preferred stock and equity capital	3,140	62,520	20,550	13,530	95,281	9,103	8,273
Number of banks with foreign offices	0	10	3	2	7	2	2

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington
Number of banks	25	58	1,057	7	12	46	24
Assets							
Cash and balances due from depository institutions							
Noninterest bearing balances and currency and coin	$ 300	$ 1,907	$ 12,427	$ 661	$ 95	$ 1,291	$ 2,548
Interest bearing balances	91	863	9,230	350	11	172	452
Securities	799	4,027	18,797	699	247	3,231	2,026
Federal funds sold and securities purchased under agreements to resell	383	607	10,265	464	47	578	1,116
Loans and leases, net of unearned income	11,124	11,579	87,480	4,178	1,013	12,383	19,429
Less allowance for loan and lease losses	278	143	1,373	51	7	132	294
Less allocated transfer risk reserve	0	0	—	0	0	0	0
Net loans and leases	10,846	11,436	86,107	4,127	1,005	12,251	19,135
Premises and fixed assets	127	330	2,351	90	26	373	490
Other real estate owned	21	40	667	68	2	18	112
Other assets	480	1,218	4,827	100	25	357	1,262
Total assets	13,046	20,428	144,670	6,559	1,459	18,271	27,141
Liabilities							
Noninterest-bearing deposits in domestic offices	525	3,869	24,740	1,210	237	3,115	5,038
Interest-bearing deposits in domestic offices	4,932	11,901	75,174	3,921	1,070	11,472	15,035
Total domestic deposits	5,458	15,771	99,914	5,131	1,307	14,587	20,073
Noninterest-bearing deposits in foreign offices	0	0	14	0	0	0	27
Interest-bearing deposits in foreign offices	0	89	11,951	117	0	19	1,226
Total foreign deposits	0	89	11,965	117	0	19	1,254
Total deposits	5,458	15,860	111,879	5,248	1,307	14,606	21,326
Federal funds purchased and securities sold under agreements to repurchase	4,943	1,880	15,196	638	24	1,706	2,085
Interest-bearing demand notes issued to the U.S. Treasury	16	30	2,679	33	10	191	318
Other liabilities for borrowed money	835	295	1,284	66	—	283	590
Mortgage indebtedness and liability for capitalized leases	5	27	167	8	—	22	35
Subordinated notes and debentures	449	6	680	46	2	35	126
All other liabilities	306	1,018	3,778	124	17	247	1,147
Total liabilities	12,010	19,116	135,664	6,164	1,361	17,091	25,627
Limited-life preferred stock	0	0	0	0	0	0	9
Equity capital							
Perpetual preferred stock	1	34	106	0	0	0	6
Common stock	195	204	1,656	54	13	110	247
Surplus	230	302	2,793	118	28	318	817
Undivided profits and capital reserves	611	772	4,451	222	57	751	435
Cumulative foreign currency translation adjustments	0	0	0	0	0	0	—
Total equity capital	1,036	1,312	9,006	394	98	1,180	1,505
Total liabilities, limited-life preferred stock, and equity capital	13,046	20,428	144,670	6,559	1,459	18,271	27,141
Number of banks with foreign offices	0	4	19	1	0	2	3

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	West Virginia	*Wisconsin*	*Wyoming*	*Puerto Rico*	*D.C.—nonnational**
Number of banks	97	118	59	1	1
Assets					
Cash and balances due from depository institutions:					
Noninterest-bearing balances and currency and coin	$ 394	$ 1,304	$ 217	—	$ 5
Interest-bearing balances	110	258	60	$ 3	5
Securities	2,749	3,006	835	1	39
Federal funds sold and securities purchased under agreements to resell	472	890	274	0	5
Loans and leases, net of unearned income	4,010	9,189	1,446	1	35
Less allowance for loan and lease losses	47	109	31	0	1
Less allocated transfer risk reserve	0	1	0	0	0
Net loans and leases	3,963	9,079	1,415	1	33
Premises and fixed assets	172	289	49	—	1
Other real estate owned	21	29	31	0	—
Other assets	140	349	81	—	1
Total assets	8,022	15,204	2,962	6	90
Liabilities					
Noninterest-bearing deposits in domestic offices	1,168	2,974	479	1	25
Interest-bearing deposits in domestic offices	5,567	8,995	2,153	2	59
Total domestic deposits	6,735	11,968	2,631	3	84
Noninterest-bearing deposits in foreign offices	0	10	0	0	0
Interest-bearing deposits in foreign offices	0	365	0	0	0
Total foreign deposits	0	374	0	0	0
Total deposits	6,735	12,343	2,631	3	84
Federal funds purchased and securities sold under agreements to repurchase	434	1,304	47	0	1
Interest-bearing demand notes issued to the U.S. Treasury	20	159	3	0	0
Other liabilities for borrowed money	10	40	2	—	0
Mortgage indebtedness and liability for capitalized leases	8	12	4	0	0
Subordinated notes and debentures	1	11	6	0	0
All other liabilities	100	326	33	—	1
Total liabilities	7,308	14,194	2,727	4	85
Limited-life preferred stock	0	0	0	0	0
Equity capital					
Perpetual preferred stock	0	0	0	0	0
Common stock	89	166	19	2	—
Surplus	195	310	71	2	1
Undivided profits and capital reserves	430	534	145	-1	4
Cumulative foreign currency translation adjustments	—	0	—	0	0
Total equity capital	715	1,010	235	3	6
Total liabilities, limited-life preferred stock, and equity capital	8,022	15,204	2,962	6	90
Number of banks with foreign offices	0	2	0	0	0

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency. Nonnational bank data are not included in U.S. aggregates.

NOTES: Foreign offices are defined to include Edge Act and Agreement subsidiaries in the U.S., branches located in Puerto Rico, the Virgin Islands and U.S. Trust Territories and branches and subsidiaries located in foreign countries. Dashes indicate amounts of less than $500,000. Data are from the consolidated reports of condition filed quarterly by all national banks.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985
(Dollar amounts in millions)

	Total United States	*Alabama*	*Alaska*	*Arizona*	*Arkansas*	*California*	*Colorado*
Number of banks	4,957	54	6	14	81	170	240
Interest income							
Interest and fee income on loans	$112,159.9	$ 756.1	$ 182.7	$1,176.8	$ 600.3	$16,655.0	$1,221.9
Income from lease financing receivables	1,691.3	3.1	0.6	13.9	2.1	386.5	10.5
Interest income on balances due from depository institutions	8,388.4	18.7	0.2	26.7	12.1	1,372.5	20.8
Interest and dividend income on securities	19,255.4	230.5	49.8	207.0	202.3	930.9	242.8
Interest income from assets held in trading accounts	1,998.7	4.2	0.0	0.6	2.8	342.8	3.5
Interest income from federal funds sold and securities purchased under agreements to resell	5,587.9	36.6	6.2	25.1	58.7	501.1	74.9
Total interest income	149,081.7	1,049.1	239.5	1,450.0	878.1	20,188.7	1,574.5
Interest expense							
Interest on deposits	77,324.7	511.3	91.4	746.4	494.0	11,317.0	768.7
Expense of federal funds purchased and securities sold under agreements to repurchase	11,124.0	77.7	14.4	41.2	41.4	820.4	108.4
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	5,825.6	18.6	2.7	10.6	3.6	536.7	12.3
Interest on mortgage indebtedness and obligations under capitalized leases	233.4	0.3	0.1	0.5	1.0	29.3	2.2
Interest on notes and debentures subordinated to deposits	654.5	1.8	0.0	3.5	1.8	157.2	3.3
Total interest expense	95,162.1	609.7	108.6	802.2	541.8	12,860.6	895.0
Net interest income	53,919.6	439.3	130.9	647.8	336.4	7,328.2	679.5
Provision for loan and lease losses	11,219.5	48.3	8.6	72.3	80.0	2,902.7	194.6
Provision for allocated transfer risk	54.1	0.0	0.0	0.0	0.0	45.0	0.0
Noninterest income							
Service charges on deposit accounts	4,323.4	48.9	14.1	90.5	32.4	651.6	99.4
Other noninterest income	15,618.0	92.3	30.6	107.0	73.7	2,621.2	180.4
Total noninterest income	19,942.4	141.2	44.7	197.4	106.1	3,272.8	279.8
Gains and losses on securities not held in trading accounts	743.7	4.2	1.6	−11.3	3.1	110.2	10.2
Noninterest expense							
Salaries and employee benefits	24,025.9	194.6	64.6	298.8	138.9	3,740.7	316.1
Expenses of premises and fixed assets (net of rental income)	8,098.7	57.7	25.5	89.5	44.8	1,395.9	106.8
Other noninterest expense	18,233.8	118.4	36.1	163.1	149.2	2,428.7	300.8
Total noninterest expense	50,358.5	370.7	126.2	551.4	333.0	7,565.3	723.7
Income (loss) before income taxes and extraordinary items and other adjustments	12,973.4	165.7	42.4	210.2	32.7	198.3	51.2
Applicable income taxes	3,217.5	25.8	5.0	66.5	12.5	181.3	−23.0
Income before extraordinary items and other adjustments	9,755.9	140.0	37.3	143.7	20.2	16.9	74.2
Extraordinary items and adjustments, net of taxes	235.2	0.8	0.0	0.0	0.4	24.5	0.0
Net income	9,991.2	140.7	37.3	143.7	20.5	41.4	74.2
Total cash dividends declared	4,877.1	52.7	9.2	46.2	38.1	320.6	66.2
Recoveries credited to allowance for possible loan losses	1,761.8	12.2	1.5	14.2	9.6	291.8	22.1
Losses charged to allowance for possible loan losses	10,299.3	47.3	7.5	70.6	68.6	2,456.4	191.8
Net loan losses	8,537.5	35.1	6.0	56.4	59.0	2,164.6	169.7

Ratio to total operating income							
Interest on deposits	45.7	43.0	32.1	45.3	50.2	48.2	41.5
Other interest expense	10.6	8.3	6.1	3.4	4.9	6.6	6.8
Salaries and employee benefits	14.2	16.3	22.7	18.1	14.1	15.9	17.0
Other noninterest expense	15.6	14.8	21.7	15.3	19.7	16.3	22.0
Total operating expenses	86.1	82.4	82.6	82.2	88.9	87.1	87.3
Ratio of net income to total equity capital (end of period)-percent	10.4	14.6	12.2	15.7	2.9	0.4	6.0

See notes at end of table

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii	Idaho
Number of banks	17	15	18	178	54	3	7
Interest income							
Interest and fee income on loans	$1,013.4	$1,195.6	$ 805.5	$4,129.4	$1,779.3	$13.1	$433.9
Income from lease financing receivables	3.4	1.3	1.7	24.7	27.3	0.1	3.9
Interest income on balances due from depository institutions	62.6	6.0	153.0	126.5	126.6	0.1	29.6
Interest and dividend income on securities	183.0	25.5	210.5	1,017.3	324.1	3.8	75.2
Interest income from assets held in trading accounts	3.2	0.0	2.0	8.3	9.0	—	1.0
Interest income from federal funds sold and securities purchased under agreements to resell	9.7	4.2	52.3	266.7	50.2	1.4	15.5
Total interest income	1,275.3	1,232.6	1,225.1	5,572.9	2,316.4	18.4	559.1
Interest expense							
Interest on deposits	577.0	250.9	667.2	2,807.8	1,031.2	9.3	307.8
Expense of federal funds purchased and securities sold under agreements to repurchase	133.3	70.7	104.0	311.6	241.2	—	34.0
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	24.4	293.9	17.6	32.7	14.7	0.1	3.3
Interest on mortgage indebtedness and obligations under capitalized leases	0.8	0.4	1.0	8.6	1.9	0.1	0.3
Interest on notes and debentures subordinated to deposits	7.1	3.9	13.8	6.1	25.8	0.1	1.8
Total interest expense	742.7	619.8	803.8	3,166.8	1,314.8	9.6	347.2
Net interest income	532.6	612.9	421.3	2,406.1	1,001.6	8.9	211.9
Provision for loan and lease losses	52.1	312.6	63.8	295.2	130.3	0.7	43.9
Provision for allocated transfer risk	0.8	0.0	0.0	0.6	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	54.1	3.8	43.4	267.7	130.9	1.0	25.9
Other noninterest income	138.7	262.7	71.6	549.1	178.3	1.6	24.4
Total noninterest income	192.9	266.5	115.0	816.8	309.2	2.6	50.3
Gains and losses on securities not held in trading accounts	16.9	—	19.7	-3.8	9.4	0.1	6.3
Noninterest expense							
Salaries and employee benefits	278.1	82.8	192.1	994.3	422.5	5.2	88.3
Expenses of premises and fixed assets (net of rental income)	94.7	22.1	77.9	394.6	141.5	2.5	17.4
Other noninterest expense	145.7	252.5	111.8	871.1	317.3	3.0	83.7
Total noninterest expense	518.5	357.4	381.7	2,260.0	881.3	10.7	189.5
Income (loss) before income taxes and extraordinary items and other adjustments	170.9	209.4	110.5	663.2	308.6	0.2	35.2
Applicable income taxes	34.0	98.1	14.1	130.7	54.1	0.2	5.5
Income before extraordinary items and other adjustments	136.9	111.4	96.4	532.4	254.4	-0.1	29.7
Extraordinary items and adjustments, net of taxes	0.1	0.0	0.3	2.6	—	0.0	0.0
Net income	137.0	111.4	96.6	535.0	254.5	-0.1	29.7
Total cash dividends declared	42.3	26.9	24.1	236.9	100.2	0.0	2.9
Recoveries credited to allowance for possible loan losses	6.8	19.8	8.1	51.3	27.1	0.2	6.4
Losses charged to allowance for possible loan losses	34.3	217.9	69.4	264.4	120.2	0.9	42.1
Net loan losses	27.6	198.1	61.3	213.1	93.0	0.7	35.6

Ratio to total operating income:							
Interest on deposits	39.3	16.7	49.8	43.9	39.3	44.1	50.5
Other interest expense	11.3	24.6	10.2	5.6	10.8	1.4	6.5
Salaries and employee benefits	18.9	5.5	14.3	15.6	16.1	24.9	14.5
Other noninterest expense	16.4	18.3	14.2	19.8	17.5	26.1	16.6
Total operating expenses	85.9	65.2	88.5	84.9	83.6	96.5	88.1
Ratio of net income to total equity capital (end of period)-percent	16.5	18.1	11.9	13.9	16.9	-0.4	8.3

See notes at end of table

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine
Number of banks	401	110	111	167	78	71	8
Interest income							
Interest and fee income on loans	$7,229.2	$1,517.7	$543.2	$618.5	$ 755.3	$1,154.4	$159.7
Income from lease financing receivables	27.0	22.9	1.3	4.5	12.2	7.2	0.6
Interest income on balances due from depository institutions	692.0	101.2	9.4	8.2	19.2	34.2	1.5
Interest and dividend income on securities	1,350.3	480.4	222.1	268.5	249.6	430.4	38.8
Interest income from assets held in trading accounts	152.3	2.8	—	0.6	1.1	0.4	
Interest income from federal funds sold and securities purchased under agreements to resell	303.1	84.8	51.2	59.1	61.5	84.7	7.0
Total interest income	9,754.0	2,209.8	827.3	959.3	1,098.9	1,711.3	207.7
Interest expense							
Interest on deposits	5,285.3	1,205.6	479.3	527.2	565.9	874.4	104.9
Expense of federal funds purchased and securities sold under agreements to repurchase	819.8	168.2	40.8	39.2	92.4	113.6	4.5
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	500.4	22.6	3.4	4.7	18.2	5.5	1.7
Interest on mortgage indebtedness and obligations under capitalized leases	3.9	3.0	1.7	0.4	1.9	1.3	0.1
Interest on notes and debentures subordinated to deposits	49.0	1.5	2.3	0.7	0.5	1.6	0.1
Total interest expense	6,658.5	1,400.9	527.5	572.2	678.8	996.5	111.3
Net interest income	3,095.6	808.9	299.7	387.1	420.1	714.9	96.4
Provision for loan and lease losses	741.3	99.2	131.9	96.5	44.5	158.4	4.6
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	169.0	68.3	26.8	33.0	35.7	69.4	5.7
Other noninterest income	843.5	153.1	69.5	63.7	51.4	104.9	21.2
Total noninterest income	1,012.4	221.4	96.2	96.6	87.2	174.2	26.9
Gains and losses on securities not held in trading accounts	33.6	9.6	11.2	5.1	-0.2	4.0	0.7
Noninterest expense							
Salaries and employee benefits	1,377.5	345.2	118.8	146.9	170.2	295.7	42.6
Expenses of premises and fixed assets (net of rental income)	432.0	110.5	35.6	42.9	55.8	105.7	15.6
Other noninterest expense	952.1	244.5	121.7	113.4	105.2	196.4	26.0
Total noninterest expense	2,761.7	700.1	276.1	303.2	331.1	597.9	84.3
Income (loss) before income taxes and extraordinary items and other adjustments	638.7	240.6	-0.8	89.1	131.4	136.8	35.1
Applicable income taxes	83.2	35.9	-4.4	13.8	14.4	12.8	10.8
Income before extraordinary items and other adjustments	555.5	204.8	3.6	75.3	117.0	124.0	24.3
Extraordinary items and adjustments, net of taxes	28.1	4.0	0.7	0.4	0.3	0.3	0.0
Net income	583.6	208.8	4.3	75.7	117.3	124.3	24.3
Total cash dividends declared	312.3	96.0	25.4	43.0	46.7	92.5	7.6
Recoveries credited to allowance for possible loan losses	126.4	18.2	9.7	7.4	9.5	24.1	1.5
Losses charged to allowance for possible loan losses	639.0	94.6	121.7	87.5	45.8	152.3	3.4
Net loan losses	512.6	76.4	112.0	80.1	36.3	128.2	1.9

Ratio to total operating income							
Interest on deposits	49.1	49.6	51.9	49.9	47.7	46.4	44.7
Other interest expense	12.8	8.0	5.2	4.3	9.5	6.5	2.7
Salaries and employee benefits	12.8	14.2	12.9	13.9	14.3	15.7	18.2
Other noninterest expense	12.9	14.6	17.0	14.8	13.6	16.0	17.8
Total operating expenses	87.5	86.4	87.0	82.9	85.2	84.6	83.4
Ratio of net income to total equity capital (end of period)-percent	8.7	12.7	0.7	9.4	13.3	8.7	16.1

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri	Montana
Number of banks	25	58	119	212	33	126	55
Interest income							
Interest and fee income on loans	$1,270.7	$3,301.7	$2,288.6	$2,278.5	$505.9	$1,413.5	$259.1
Income from lease financing receivables	16.1	133.7	18.4	5.8	2.1	12.1	0.2
Interest income on balances due from depository institutions	69.8	348.9	267.9	224.0	12.8	44.1	10.7
Interest and dividend income on securities	231.5	362.6	629.0	526.3	209.2	352.1	53.9
Interest income from assets held in trading accounts	10.3	105.9	6.9	29.9	0.6	10.0	0.0
Interest income from federal funds sold and securities purchased under agreements to resell	47.9	64.6	137.6	159.8	33.9	170.4	57.3
Total interest income	1,646.3	4,317.4	3,348.4	3,224.1	764.4	2,002.3	381.2
Interest expense							
Interest on deposits	706.7	2,021.1	1,806.3	1,688.1	399.3	964.8	202.8
Expense of federal funds purchased and securities sold under agreements to repurchase	182.8	349.0	258.0	430.5	57.1	213.2	30.3
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	16.8	515.4	37.5	70.8	2.9	18.4	1.1
Interest on mortgage indebtedness and obligations under capitalized leases	2.7	2.3	4.0	4.5	0.3	7.5	1.0
Interest on notes and debentures subordinated to deposits	3.2	8.8	13.0	22.0	0.7	1.0	1.4
Total interest expense	912.3	2,896.5	2,118.8	2,215.9	460.2	1,204.9	236.6
Net interest income	734.0	1,420.9	1,229.6	1,008.3	304.2	797.4	144.6
Provision for loan and lease losses	168.6	179.2	125.8	259.2	37.0	114.1	51.4
Provision for allocated transfer risk	0.7	0.7	0.6	0.9	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	76.1	80.6	119.0	85.7	33.7	66.1	13.0
Other noninterest income	121.9	514.1	307.9	379.1	37.4	242.4	21.8
Total noninterest income	198.0	594.7	426.9	464.7	71.1	308.4	34.8
Gains and losses on securities not held in trading accounts	7.4	20.5	11.1	-1.2	-0.6	8.9	1.0
Noninterest expense							
Salaries and employee benefits	329.1	700.4	602.8	382.0	128.2	334.7	54.5
Expenses of premises and fixed assets (net of rental income)	111.1	234.9	178.8	106.6	38.5	106.3	18.0
Other noninterest expense	227.4	484.6	410.9	414.5	90.6	305.2	54.9
Total noninterest expense	667.6	1,419.9	1,192.5	903.1	257.3	746.1	127.4
Income (loss) before income taxes and extraordinary items and other adjustments	102.5	436.3	348.6	308.6	80.3	254.4	1.6
Applicable income taxes	6.7	160.6	63.5	54.4	4.0	59.9	-8.2
Income before extraordinary items and other adjustments	95.8	275.7	285.0	254.3	76.3	194.6	9.8
Extraordinary items and adjustments, net of taxes	0.0	0.0	1.6	0.1	0.0	0.1	0.0
Net income	95.8	275.7	286.7	254.3	76.3	194.7	9.8
Total cash dividends declared	40.0	63.5	119.6	114.5	25.3	93.6	22.9
Recoveries credited to allowance for possible loan losses	24.5	40.6	45.9	37.0	9.3	23.3	4.5
Losses charged to allowance for possible loan losses	125.4	163.3	130.4	234.0	37.9	125.9	47.8
Net loan losses	100.9	122.7	84.5	197.0	28.6	102.7	43.3

Ratio to total operating income							
Interest on deposits	38.3	41.1	47.8	45.8	47.8	41.8	48.7
Other interest expense	11.1	17.8	8.3	14.3	7.3	10.4	8.1
Salaries and employee benefits	17.8	14.3	16.0	10.4	15.3	14.5	13.1
Other noninterest expense	18.4	14.6	15.6	14.1	15.5	17.8	17.5
Total operating expenses	85.7	87.9	87.7	84.6	85.9	84.4	87.5
Ratio of net income to total equity capital (end of period)-percent	8.8	12.3	12.5	12.1	13.8	11.9	3.9

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina
Number of banks	120	6	24	71	45	104	17
Interest income							
Interest and fee income on loans	$611.0	$397.4	$234.5	$2,643.6	$389.2	$21,082.8	$2,274.3
Income from lease financing receivables	6.4	3.1	0.2	21.0	1.9	496.5	67.4
Interest income on balances due from depository institutions	4.9	17.8	4.0	92.1	5.7	2,415.4	127.2
Interest and dividend income on securities	210.7	53.4	48.0	747.3	128.9	2,014.7	634.5
Interest income from assets held in trading accounts	0.8	0.1	0.0	4.6	—	1,094.3	39.9
Interest income from federal funds sold and securities purchased under agreements to resell	50.8	9.1	7.2	111.1	33.6	1,077.1	130.5
Total interest income	884.4	480.8	293.9	3,619.7	559.3	28,180.8	3,273.8
Interest expense							
Interest on deposits	480.0	151.4	146.5	1,783.9	305.2	15,153.0	1,447.6
Expense of federal funds purchased and securities sold under agreements to repurchase	48.2	73.8	14.8	185.5	26.5	1,671.9	527.9
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2.4	3.6	1.4	22.9	1.8	2,659.5	50.8
Interest on mortgage indebtedness and obligations under capitalized leases	3.2	0.6	0.5	1.7	0.4	92.8	6.9
Interest on notes and debentures subordinated to deposits	2.4	0.0	0.3	4.5	1.2	131.7	10.6
Total interest expense	536.1	229.4	163.5	1,998.5	335.1	19,708.9	2,043.7
Net interest income	348.3	251.5	130.4	1,621.1	224.2	8,471.8	1,230.1
Provision for loan and lease losses	130.5	37.5	8.3	118.9	43.5	1,087.3	139.9
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Noninterest income							
Service charges on deposit accounts	25.7	23.7	7.3	155.0	23.5	250.2	124.1
Other noninterest income	107.0	46.8	21.7	225.2	35.4	3,684.2	301.8
Total noninterest income	132.7	70.5	29.0	380.2	58.9	3,935.4	425.8
Gains and losses on securities not held in trading accounts	11.0	-0.3	1.0	3.3	1.6	136.9	21.7
Noninterest expense							
Salaries and employee benefits	136.6	74.0	51.1	678.1	96.0	4,086.5	551.0
Expenses of premises and fixed assets (net of rental income)	49.4	28.7	16.0	241.0	33.2	1,419.8	169.5
Other noninterest expense	145.3	87.2	43.7	459.9	70.1	2,965.9	328.5
Total noninterest expense	331.2	190.0	110.8	1,379.1	199.4	8,472.2	1,049.0
Income (loss) before income taxes and extraordinary items and other adjustments	30.3	94.2	41.2	506.6	41.9	2,984.3	488.7
Applicable income taxes	-15.3	30.5	8.2	93.6	8.8	1,168.2	111.7
Income before extraordinary items and other adjustments	45.6	63.7	33.1	413.0	33.1	1,816.1	376.9
Extraordinary items and adjustments, net of taxes	—	0.2	0.0	—	0.1	1.4	0.0
Net income	45.6	63.9	33.1	413.1	33.1	1,817.5	376.9
Total cash dividends declared	37.7	26.3	10.0	170.2	19.5	861.5	95.5
Recoveries credited to allowance for possible loan losses	10.1	5.8	2.3	33.1	6.0	264.4	21.3
Losses charged to allowance for possible loan losses	128.2	13.6	5.9	90.4	41.4	1,183.9	54.9
Net loan losses	118.1	7.8	3.6	57.3	35.3	919.5	33.6

Ratio to total operating income							
Interest on deposits	47.2	27.5	45.4	44.6	49.4	47.2	39.1
Other interest expense	5.5	14.2	5.3	5.4	4.8	14.2	16.1
Salaries and employee benefits	13.4	13.4	15.8	17.0	15.5	12.7	14.9
Other noninterest expense	19.1	21.0	18.5	17.5	16.7	13.7	13.5
Total operating expenses	85.3	76.1	85.0	84.4	86.5	87.7	83.6
Ratio of net income to total equity capital (end of period)-percent	6.5	11.5	16.1	15.8	8.4	11.0	18.0

See notes at end of table

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
Number of banks	42	144	231	8	184	6	20
Interest income							
Interest and fee income on loans	$207.7	$3,974.2	$1,308.1	$ 905.7	$5,554.2	$581.3	$543.8
Income from lease financing receivables	1.0	87.2	4.4	16.0	91.3	40.6	4.9
Interest income on balances due from depository institutions	5.5	274.6	34.4	29.0	589.7	26.8	16.2
Interest and dividend income on securities	72.1	932.2	471.0	108.4	1,329.1	94.4	115.9
Interest income from assets held in trading accounts	1.4	9.3	8.6	8.4	75.7	2.2	3.5
Interest income from federal funds sold and securities purchased under agreements to resell	20.0	273.1	77.9	69.1	214.4	10.7	36.9
Total interest income	307.7	5,550.5	1,904.4	1,136.8	7,854.3	756.0	721.3
Interest expense							
Interest on deposits	179.3	2,829.3	1,079.7	541.9	3,988.0	393.4	317.8
Expense of federal funds purchased and securities sold under agreements to repurchase	10.6	504.1	100.1	116.2	813.3	66.7	74.8
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	1.7	54.5	32.5	13.3	315.2	42.5	5.4
Interest on mortgage indebtedness and obligations under capitalized leases	0.5	5.9	1.5	1.0	7.5	1.3	0.9
Interest on notes and debentures subordinated to deposits	1.3	2.1	5.6	4.0	63.4	1.7	2.3
Total interest expense	193.4	3,395.9	1,219.5	676.4	5,187.4	505.6	401.3
Net interest income	114.3	2,154.6	684.9	460.3	2,666.9	250.4	320.0
Provision for loan and lease losses	26.1	268.1	251.2	46.0	294.7	70.7	24.2
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	3.8	0.0	0.0
Noninterest income							
Service charges on deposit accounts	9.1	188.4	69.0	63.4	185.6	11.4	40.0
Other noninterest income	14.4	565.3	133.9	79.4	712.8	130.2	56.0
Total noninterest income	23.6	753.7	202.9	142.8	898.4	141.6	96.0
Gains and losses on securities not held in trading accounts	3.2	3.9	29.1	3.7	87.1	1.6	1.9
Noninterest expense							
Salaries and employee benefits	40.6	930.0	310.4	203.8	1,271.9	130.1	152.6
Expenses of premises and fixed assets (net of rental income)	14.5	295.5	89.6	51.6	416.1	27.1	53.9
Other noninterest expense	33.4	705.1	291.7	145.3	835.8	115.2	112.2
Total noninterest expense	88.5	1,930.7	691.6	400.7	2,523.8	272.5	318.7
Income (loss) before income taxes and extraordinary items and other adjustments	26.5	713.4	-26.0	160.1	830.1	50.3	75.0
Applicable income taxes	4.8	132.7	-7.4	39.2	130.5	9.7	7.9
Income before extraordinary items and other adjustments	21.7	580.7	-18.6	120.9	699.6	40.6	67.1
Extraordinary items and adjustments, net of taxes	—	34.1	7.8	—	107.3	0.0	—
Net income	21.7	614.8	-10.8	120.9	806.9	40.6	67.2
Total cash dividends declared	16.8	245.3	61.8	48.9	409.0	20.8	21.5
Recoveries credited to allowance for possible loan losses	3.7	80.6	37.5	19.2	82.8	8.2	4.2
Losses charged to allowance for possible loan losses	27.4	272.7	279.2	53.1	268.1	61.7	17.8
Net loan losses	23.7	192.1	241.7	33.9	185.3	53.5	13.6

Ratio to total operating income							
Interest on deposits	54.1	44.9	51.2	42.3	45.6	43.8	38.9
Other interest expense	4.2	9.0	6.6	10.5	13.7	12.5	10.2
Salaries and employee benefits	12.3	14.8	14.7	15.9	14.5	14.5	18.7
Other noninterest expense	14.5	15.9	18.1	15.4	14.3	15.9	20.3
Total operating expenses	85.1	84.5	90.7	84.2	88.1	86.7	88.1
Ratio of net income to total equity capital (end of period)-percent	10.0	14.5	-0.8	14.5	15.1	8.2	13.4

See notes at end of table

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued

(Dollar amounts in millions)

	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington
Number of banks	25	58	1,057	7	12	46	24
Interest income							
Interest and fee income on loans	$1,838.9	$1,225.0	$ 9,444.6	$440.4	$116.2	$1,352.9	$2,127.0
Income from lease financing receivables	0.1	8.5	23.0	5.8	0.0	21.3	35.2
Interest income on balances due from depository institutions	5.9	62.9	742.9	32.9	1.4	28.7	30.1
Interest and dividend income on securities	69.1	351.5	1,702.5	46.2	20.0	247.5	154.1
Interest income from assets held in trading accounts	0.0	10.5	14.2	0.6	—	1.1	13.8
Interest income from federal funds sold and securities purchased under agreements to resell	21.2	63.3	694.3	43.4	5.0	43.4	59.0
Total interest income	1,935.1	1,721.8	12,621.5	569.2	142.6	1,695.1	2,419.3
Interest expense							
Interest on deposits	480.3	871.4	6,988.3	293.8	81.5	880.1	1,207.8
Expense of federal funds purchased and securities sold under agreements to repurchase	286.0	134.6	1,225.3	45.9	1.8	110.1	145.1
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	84.3	17.1	224.5	2.9	0.6	30.7	54.6
Interest on mortgage indebtedness and obligations under capitalized leases	0.6	2.1	14.6	0.7	0.0	2.3	4.8
Interest on notes and debentures subordinated to deposits	3.7	0.5	64.5	4.2	0.4	2.8	13.3
Total interest expense	854.9	1,025.7	8,517.3	347.5	84.2	1,026.1	1,425.6
Net interest income	1,080.3	696.1	4,104.3	221.7	58.3	669.0	993.7
Provision for loan and lease losses	491.9	93.9	1,304.2	28.4	3.7	60.5	117.5
Provision for allocated transfer risk	0.0	0.0	—	0.0	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	13.8	85.2	410.7	29.2	4.8	57.8	133.7
Other noninterest income	325.8	251.8	961.0	39.8	9.4	178.2	281.3
Total noninterest income	339.6	337.1	1,371.8	69.0	14.2	236.0	414.9
Gains and losses on securities not held in trading accounts	2.0	4.1	120.5	1.1	0.6	7.3	18.4
Noninterest expense							
Salaries and employee benefits	97.6	368.0	1,647.1	82.6	27.6	302.6	537.3
Expenses of premises and fixed assets (net of rental income)	34.3	108.2	567.0	27.4	8.4	92.9	177.9
Other noninterest expense	488.6	252.0	1,392.3	99.6	15.5	242.3	365.6
Total noninterest expense	620.4	728.2	3,606.4	209.6	51.5	637.7	1,080.8
Income (loss) before income taxes and extraordinary items and other adjustments	309.5	215.2	685.8	53.7	17.9	214.0	228.7
Applicable income taxes	138.7	36.5	87.9	9.0	3.5	34.6	41.2
Income before extraordinary items and other adjustments	170.8	178.7	597.9	44.8	14.3	179.4	187.5
Extraordinary items and adjustments, net of taxes	0.0	4.4	9.0	0.0	0.0	0.0	5.0
Net income	170.8	183.2	606.9	44.8	14.3	179.4	192.5
Total cash dividends declared	8.9	77.4	432.7	13.7	5.1	62.3	43.9
Recoveries credited to allowance for possible loan losses	60.0	18.6	159.4	5.6	0.7	12.5	52.9
Losses charged to allowance for possible loan losses	393.5	96.9	1,291.5	25.4	3.4	51.2	190.0
Net loan losses	333.5	78.4	1,132.1	19.9	2.7	38.7	137.1

Ratio to total operating income.							
Interest on deposits	21.1	42.3	49.9	46.0	52.0	45.6	42.6
Other interest expense	16.5	7.5	10.9	8.4	1.8	7.6	7.7
Salaries and employee benefits	4.3	17.9	11.8	12.9	17.6	15.7	19.0
Other noninterest expense	23.0	17.5	14.0	19.9	15.2	17.4	19.2
Total operating expenses	64.9	85.2	86.6	87.3	86.6	86.2	88.4
Ratio of net income to total equity capital (end of period)-percent	16.5	14.0	6.7	11.4	14.6	15.2	12.8

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, December 31, 1985—continued
(Dollar amounts in millions)

	West Virginia	Wisconsin	Wyoming	Puerto Rico	D.C.—nonnational*
Number of banks	97	118	59	1	1
Interest income					
Interest and fee income on loans	$462.8	$1,002.2	$183.4	—	$ 4.4
Income from lease financing receivables	0.5	11.8	0.1	0.0	0.0
Interest income on balances due from depository institutions	13.3	23.2	4.4	—	0.1
Interest and dividend income on securities	264.7	259.0	73.4	—	3.2
Interest income from assets held in trading accounts	0.4	10.9	—	0.0	0.0
Interest income from federal funds sold and securities purchased under agreements to resell	37.8	55.6	18.0	0.0	0.6
Total interest income	779.4	1,362.7	279.3	—	8.3
Interest expense					
Interest on deposits	422.4	731.5	159.0	—	3.5
Expense of federal funds purchased and securities sold under agreements to repurchase	37.9	101.4	3.7	0.0	0.1
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2.1	10.0	0.7	—	0.0
Interest on mortgage indebtedness and obligations under capitalized leases	0.6	1.2	0.4	0.0	0.0
Interest on notes and debentures subordinated to deposits	0.2	1.3	0.5	0.0	0.0
Total interest expense	463.1	845.5	164.4	—	3.6
Net interest income	316.2	517.2	114.9	—	4.7
Provision for loan and lease losses	24.9	74.7	55.8	0.0	0.7
Provision for allocated transfer risk	0.0	0.6	0.0	0.0	0.0
Noninterest income					
Service charges on deposit accounts	14.6	40.2	11.6	0.0	0.3
Other noninterest income	31.6	149.2	12.3	—	1.4
Total noninterest income	46.1	189.4	23.8	—	1.8
Gains and losses on securities not held in trading accounts	1.3	2.6	2.4	0.0	0.0
Noninterest expense					
Salaries and employee benefits	114.9	242.7	47.2	—	1.9
Expenses of premises and fixed assets (net of rental income)	35.0	65.3	13.1	—	0.2
Other noninterest expense	85.3	181.2	42.4	0.8	1.3
Total noninterest expense	235.2	489.2	102.6	0.9	3.4
Income (loss) before income taxes and extraordinary items and other adjustments	103.5	144.7	-17.3	-0.8	2.3
Applicable income taxes	15.8	27.5	-12.8	0.0	0.9
Income before extraordinary items and other adjustments	87.7	117.2	-4.5	-0.8	1.5
Extraordinary items and adjustments, net of taxes	0.4	1.3	—	0.0	0.0
Net income	88.1	118.5	-4.5	-0.8	1.5
Total cash dividends declared	47.0	61.6	10.5	0.0	0.2
Recoveries credited to allowance for possible loan losses	4.7	10.6	4.6	0.0	1.1
Losses charged to allowance for possible loan losses	21.5	73.0	54.3	0.0	1.3
Net loan losses	16.7	62.4	49.7	0.0	0.2

Ratio to total operating income					
Interest on deposits	51.2	47.1	52.5	10.0	34.8
Other interest expense	4.9	7.3	1.8	32.5	1.1
Salaries and employee benefits	13.9	15.6	15.6	122.5	18.5
Other noninterest expense	14.6	15.9	18.3	35.0	15.4
Total operating expenses	84.6	86.0	88.1	200.0	69.8
Ratio of net income to total equity capital (end of period)-percent	12.3	11.7	-1.9	-32.2	26.2

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency. Nonnational bank data are not included in U.S. aggregates.

NOTES. Foreign offices are defined to include Edge Act and Agreement subsidiaries in the U.S., branches located in Puerto Rico, the Virgin Islands and U.S. Trust Territories and branches and subsidiaries located in foreign countries. Dashes indicate amounts of less than $50,000. Data are from the consolidated reports of condition filed quarterly by all national banks.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, December 31, 1985
(Dollar amounts in millions)

	*4,957 banks**	
	Consolidated foreign and domestic	*Percent distribution*
Interest income		
Interest and fee income on loans	$ 112,160	75.2
Income from lease financing receivables	1,691	1.1
Interest income on balances due from depository institutions	8,388	5.6
Interest and dividend income on securities	19,255	12.9
Interest income from assets held in trading accounts	1,999	1.3
Interest income from federal funds sold and securities purchased under agreements to resell	5,588	3.7
Total interest income	149,082	99.8
Interest expense		
Interest on deposits	77,325	81.3
Expense of federal funds purchased and securities sold under agreements to repurchase	11,124	11.7
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	5,826	6.1
Interest on mortgage indebtedness and obligations under capitalized leases	233	0.2
Interest on notes and debentures subordinated to deposits	655	0.7
Total interest expense	95,162	100.0
Net interest income	53,920	
Provision for loan and lease losses	11,220	
Provision for allocated transfer risk	54	
Noninterest income.		
Service charges on deposit accounts	4,323	21.7
Other noninterest income	15,618	78.3
Total noninterest income	19,942	100.0
Gains and losses on securities not held in trading accounts	744	
Noninterest expense		
Salaries and employee benefits	24,026	47.7
Expenses of premises and fixed assets (net of rental income)	8,099	16.1
Other noninterest expense	18,234	36.2
Total noninterest expense	50,358	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	12,973	
Applicable income taxes	3,217	
Income before extraordinary items and other adjustments	9,756	
Extraordinary items and adjustments, net of taxes	235	
Net income	9,991	
Total cash dividends declared	4,877	
Recoveries credited to allowance for possible loan losses	1,762	
Losses charged to allowance for possible loan losses	10,299	
Net loan losses	8,537	
Ratio to total operating income		
Interest on deposits	45.7	
Other interest expense	10.6	
Salaries and employee benefits	14.2	
Other noninterest expense	15.6	
Total operating expenses	86.1	
Ratio of net income (annualized) to		
Total assets (end of period)	0.61	
Total equity capital	10.36	

*Reporting national banks

Deposits of national banks, by states, December 31, 1985
(Dollar amounts in millions)

	Total demand deposits at domestic offices	*NOW and automatic transfer accounts*	*Non-transaction savings accounts*	*Time certificates of deposit of $100,000 or more*	*Other large time deposits*	*All other time deposits at domestic offices*	*Total deposits at foreign offices*	*Total consolidated deposits*	*Brokered deposits*
All national banks	$267,597	$48,763	$293,691	$162,893	$20,886	$239,885	$208,282	$1 241,998	$17 055
Alabama	2,404	362	2,308	1,442	200	2,841	147	9,705	188
Alaska	641	18	663	377	1	191	1	1,892	1
Arizona	3,280	517	4,382	1,746	4	3,570	24	13,524	3
Arkansas	1,613	429	2,204	1,154	75	2,537	3	8 015	18
California	33,137	6,117	41,969	22,316	2,157	22,191	41,736	169,623	3,937
Colorado	4,282	746	4,436	2,440	221	2,307	244	14,676	86
Connecticut	4,539	729	2,986	617	355	2,748	512	12,485	139
Delaware	195	19	1,444	1,646	0	544	101	3,950	4
District of Columbia	2,879	558	3,809	2,028	26	887	2,035	12,222	407
Florida	13,189	3,629	18,295	5,628	454	10,918	824	52,937	203
Georgia	6,104	949	4,974	2,220	91	4,226	754	19,318	357
Hawaii	45	1	71	31	0	27	0	175	0
Idaho	758	279	1,452	478	5	1,660	0	4,633	45
Illinois	14,708	2,127	13,684	10,395	2,083	14,541	21,763	79,302	946
Indiana	4,763	771	5,588	2,309	48	6,989	312	20,781	27
Iowa	1,748	437	1,804	470	2	3,252	16	7,729	65
Kansas	1,755	458	2,363	1,252	35	2,791	0	8,653	2
Kentucky	2,421	536	2,250	1,143	33	3,304	88	9,774	164
Louisiana	3,732	627	4,442	3,583	23	2,956	21	15,385	211
Maine	439	175	730	92	3	506	0	1,944	8
Maryland	3,745	465	4,105	1,005	6	2,907	976	13,208	304
Massachusetts	7,765	1,166	7,769	4,172	720	2,905	6,995	31,491	613
Michigan	6,914	949	8,985	3,286	141	8,611	1,499	30,386	298
Minnesota	5,931	1,191	4,600	5,739	604	6,122	2,465	26,652	1 229
Mississippi	1,519	346	1,550	1,041	5	2,337	15	6 813	0
Missouri	5,959	807	3,966	2,989	296	4,273	679	18,970	225
Montana	570	234	877	266	5	1,231	0	3,184	2
Nebraska	1,862	511	1,689	531	5	3,259	0	7,856	2
Nevada	842	241	823	416	0	614	0	2,935	63
New Hampshire	628	273	950	271	2	634	0	2,758	1
New Jersey	10,900	1,704	12,392	2,852	129	8,237	302	36,515	48
New Mexico	889	165	1,550	961	45	1,162	0	4,772	0
New York	34,792	3,455	32,143	12,076	7,502	17,382	102,712	210,064	563
North Carolina	6,156	1,722	6,865	2,838	212	5,867	2,104	25,764	364
North Dakota	444	216	609	246	1	1,204	0	2,719	4
Ohio	10,234	2,644	14,175	4,638	304	15,162	811	47,968	214
Oklahoma	3,640	626	3,826	4,700	38	4,209	143	17,182	230
Oregon	1,962	975	3,330	697	0	2,465	56	9,486	127
Pennsylvania	14,371	2,552	19,129	7,356	501	16,160	6,132	66,201	1 315
Rhode Island	962	139	1,793	1,025	244	1,415	995	6,574	421
South Carolina	1,953	542	2,013	342	2	1,534	0	6,385	0
South Dakota	525	280	1,039	1,503	2	2,109	0	5,458	814
Tennessee	3,863	832	3,906	2,071	18	5,081	89	15,860	7
Texas	24,548	3,498	18,240	33,480	3,807	16,340	11,965	111,879	2 962
Utah	1,204	307	1,226	1,060	4	1,330	117	5 248	0
Vermont	237	76	483	59	9	442	0	1 307	0
Virginia	3,060	958	3,747	1,476	185	5,161	19	14 606	103
Washington	4,942	1,436	5,819	2,411	37	5 428	1,254	21 326	227
West Virginia	1,116	283	2,006	475	4	2 852	0	6 735	2
Wisconsin	2,954	491	3,484	1 222	31	3,785	374	12,343	107
Wyoming	477	194	750	318	211	680	0	2 631	0

Loans of national banks, by states, December 31, 1985
(Dollar amounts in millions)

	Total loans gross	Loans secured by real estate	Loans to financial institutions	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans less unearned income	Total loans at foreign offices
All national banks	$1,009,951	$252,654	$16,647	$16,652	$274,576	$187,331	$101,111	$999,477	$160,979
Alabama	7,701	1,980	90	51	2,368	1,892	1,284	7,519	34
Alaska	1,548	497	0	3	593	191	258	1,547	6
Arizona	10,945	3,495	286	457	3,058	2,933	671	10,918	45
Arkansas	5,291	1,911	71	155	1,754	1,113	278	5,186	8
California	148,303	44,552	1,641	2,842	30,749	22,982	10,254	148,123	35,284
Colorado	10,255	3,262	81	508	3,386	2,156	859	10,232	3
Connecticut	9,644	3,110	186	17	3,340	2,205	592	9,486	193
Delaware	10,064	405	1	0	482	9,029	146	10,062	0
District of Columbia	8,459	2,718	319	1	2,318	795	1,388	8,412	919
Florida	38,676	14,958	350	136	8,820	10,566	3,460	37,899	385
Georgia	16,328	4,024	134	73	5,079	4,268	2,491	16,172	260
Hawaii	115	61	0	0	39	15	1	115	0
Idaho	3,600	945	5	406	995	957	291	3,579	0
Illinois	63,475	10,954	778	937	21,653	8,355	7,074	62,689	13,724
Indiana	14,368	4,304	348	286	3,684	3,475	2,096	14,196	176
Iowa	4,493	1,261	45	662	1,048	1,025	441	4,473	11
Kansas	5,181	1,209	54	773	1,709	1,075	361	5,156	0
Kentucky	7,287	2,056	98	162	2,138	1,649	1,127	7,169	57
Louisiana	10,518	3,068	52	70	3,549	2,407	1,340	10,366	33
Maine	1,500	577	0	13	465	319	126	1,498	0
Maryland	11,006	2,995	142	39	2,731	3,010	1,283	10,961	807
Massachusetts	28,021	5,878	454	21	10,578	3,127	2,825	27,805	5,139
Michigan	22,059	6,135	322	136	8,049	3,873	2,721	22,005	823
Minnesota	21,768	4,453	144	682	8,283	3,015	4,116	21,639	1,074
Mississippi	4,683	1,514	109	88	1,199	1,375	397	4,526	0
Missouri	13,139	3,725	263	312	3,731	2,880	1,869	13,049	358
Montana	2,163	507	6	343	716	494	98	2,136	0
Nebraska	4,827	823	116	1,198	1,172	1,061	456	4,819	0
Nevada	3,837	812	71	11	615	2,164	165	3,837	0
New Hampshire	2,182	795	8	1	635	611	132	2,146	0
New Jersey	26,697	9,523	713	11	8,391	5,326	2,540	26,267	194
New Mexico	3,249	1,057	40	134	1,065	825	128	3,197	0
New York	175,166	23,181	3,090	304	28,961	16,717	11,741	172,150	91,171
North Carolina	23,097	6,255	427	158	7,346	5,238	3,019	22,975	653
North Dakota	1,693	417	2	310	527	339	98	1,689	0
Ohio	37,667	9,707	554	306	10,527	11,419	4,808	37,105	346
Oklahoma	11,059	3,639	175	707	3,766	1,546	1,223	10,978	4
Oregon	8,391	2,278	122	259	3,036	1,592	1,023	8,326	81
Pennsylvania	57,135	10,721	3,159	184	19,774	8,393	11,056	56,491	3,846
Rhode Island	5,829	1,969	160	5	1,758	940	729	5,806	268
South Carolina	5,089	1,345	113	42	1,410	1,560	618	4,945	0
South Dakota	11,142	445	10	549	770	9,180	187	11,124	0
Tennessee	11,722	3,307	288	100	3,541	2,601	1,872	11,579	13
Texas	88,314	29,346	1,367	1,878	34,551	10,097	7,714	87,480	3,361
Utah	4,196	1,468	6	75	1,153	947	548	4,178	0
Vermont	1,013	480	5	10	260	204	53	1,013	0
Virginia	12,762	4,124	22	124	2,961	4,065	1,455	12,383	12
Washington	19,475	5,370	131	714	5,708	3,934	2,246	19,429	1,371
West Virginia	4,134	1,633	6	10	744	1,493	249	4,010	0
Wisconsin	9,234	2,977	77	231	2,846	1,612	1,169	9,189	322
Wyoming	1,453	428	4	158	545	285	33	1,446	0

Outstanding balances, credit cards and related plans of national banks, December 31, 1985
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,957	2,364	$61,441,328
Alabama	54	13	249,157
Alaska	6	4	71,916
Arizona	14	10	688,306
Arkansas	81	11	88,164
California	170	152	10,764,259
Colorado	240	208	613,780
Connecticut	17	9	416,827
Delaware	15	13	7,599,568
District of Columbia	19	17	122,121
Florida	178	71	1,986,899
Georgia	54	32	1,509,291
Hawaii	3	2	3,024
Idaho	7	7	152,199
Illinois	401	182	3,496,730
Indiana	110	77	796,103
Iowa	111	55	329,905
Kansas	167	40	222,524
Kentucky	78	34	161,157
Louisiana	71	21	506,396
Maine	8	7	65,330
Maryland	25	14	1,521,436
Massachusetts	58	46	823,881
Michigan	119	89	1,095,291
Minnesota	212	147	379,468
Mississippi	33	7	147,161
Missouri	126	66	868,937
Montana	55	30	45,343
Nebraska	120	36	321,248
Nevada	6	4	1,707,934
New Hampshire	24	20	102,945
New Jersey	71	49	791,636
New Mexico	45	12	188,190
New York	104	55	4,486,625
North Carolina	17	15	1,274,600
North Dakota	42	24	25,267
Ohio	144	101	2,700,654
Oklahoma	231	70	201,233
Oregon	8	4	457,190
Pennsylvania	184	55	719,197
Rhode Island	6	3	348,397
South Carolina	20	15	324,364
South Dakota	25	12	8,706,779
Tennessee	58	19	510,547
Texas	1,057	313	785,580
Utah	7	4	158,803
Vermont	12	3	31,187
Virginia	46	16	883,841
Washington	24	10	1,398,360
West Virginia	97	22	75,415
Wisconsin	118	97	503,050
Wyoming	59	41	13,121
District of Columbia—all*	20	18	122,386

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

National banks engaged in lease financing, December 31, 1985
(Dollar amounts in thousands)

	Total number of national banks	*Number of banks engaged in lease financing*	*Amounts of lease financing at domestic offices*
All national banks	4,957	1,159	$14,277,137
Alabama	54	8	55,646
Alaska	6	2	6,813
Arizona	14	2	184,407
Arkansas	81	25	20,527
California	170	53	3,730,260
Colorado	240	90	148,004
Connecticut	17	4	24,787
Delaware	15	1	12,123
District of Columbia	19	7	54,728
Florida	178	32	242,150
Georgia	54	17	286,362
Hawaii	3	1	662
Idaho	7	3	87,723
Illinois	401	89	126,596
Indiana	110	36	328,875
Iowa	111	25	13,918
Kansas	167	37	45,539
Kentucky	78	21	154,862
Louisiana	71	11	78,074
Maine	8	2	9,087
Maryland	25	7	202,122
Massachusetts	58	19	1,024,117
Michigan	119	21	240,860
Minnesota	212	73	199,077
Mississippi	33	6	13,164
Missouri	126	37	187,160
Montana	55	12	1,687
Nebraska	120	41	72,762
Nevada	6	2	21,518
New Hampshire	24	3	1,903
New Jersey	71	19	242,749
New Mexico	45	20	18,039
New York	104	27	1,982,213
North Carolina	17	6	690,950
North Dakota	42	16	10,252
Ohio	144	65	924,010
Oklahoma	231	61	37,743
Oregon	8	2	103,503
Pennsylvania	184	25	947,999
Rhode Island	6	2	408,235
South Carolina	20	4	44,663
South Dakota	25	9	1,683
Tennessee	58	26	74,082
Texas	1,057	117	413,132
Utah	7	3	117,161
Vermont	12	0	0
Virginia	46	8	198,623
Washington	24	8	382,278
West Virginia	97	10	5,517
Wisconsin	118	33	97,557
Wyoming	59	11	1,235
District of Columbia—all*	20	7	54,728

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

Total loans and leases past due at national banks, by states, December 31, 1985
(Dollar amounts in millions)

	Number of banks*	Type of loan					
		Real estate	Commercial and industrial	Personal	All other	Total domestic loans	Foreign
Reporting national banks	4,957	$11,634.6	$12,382.4	$6,533.0	$5,805.6	$39,024.9	$7,934.8
Alabama	54	40.9	59.9	70.4	22.3	209.0	0.0
Alaska	6	37.4	34.4	6.3	11.5	110.1	0.9
Arizona	14	220.8	143.2	94.2	49.0	508.5	7.3
Arkansas	81	111.8	59.8	41.1	62.9	329.2	0.0
California	170	2,849.4	2,900.7	837.9	1,234.0	7,878.0	1,596.5
Colorado	240	158.2	133.8	74.1	224.9	750.1	0.0
Connecticut	17	91.3	105.3	65.3	8.0	272.1	31.4
Delaware	15	32.8	8.7	429.4	2.0	473.5	0.0
District of Columbia	19	138.1	161.0	14.8	14.7	332.1	26.7
Florida	178	639.2	304.6	221.8	126.2	1,343.7	25.3
Georgia	54	102.6	120.0	132.0	37.4	403.1	18.6
Hawaii	3	1.5	—	0.4	0.8	4.9	0.0
Idaho	7	39.1	58.6	27.3	24.7	153.1	0.0
Illinois	400	491.3	642.8	238.4	248.3	1,872.3	594.4
Indiana	110	129.6	64.5	95.5	76.1	428.0	11.5
Iowa	111	37.8	19.3	31.4	72.7	287.1	1.5
Kansas	167	32.1	22.4	30.7	68.9	223.6	0.0
Kentucky	78	69.2	37.8	37.6	49.0	225.3	4.0
Louisiana	71	241.9	158.4	112.1	58.2	613.1	0.0
Maine	8	19.4	9.5	9.6	4.9	44.9	0.0
Maryland	25	106.1	112.1	166.6	24.2	412.2	21.0
Massachusetts	58	190.1	396.9	109.9	88.3	803.9	297.7
Michigan	119	197.5	212.8	88.9	75.1	622.6	16.1
Minnesota	212	274.7	391.1	79.2	251.2	1,172.3	104.7
Mississippi	33	55.8	24.8	49.1	25.5	168.1	0.0
Missouri	126	118.5	134.8	71.6	98.9	492.6	45.8
Montana	55	26.1	12.0	16.8	71.1	188.2	0.0
Nebraska	120	31.4	25.0	27.8	119.2	272.8	0.0
Nevada	6	54.4	44.1	52.8	4.0	155.7	0.0
New Hampshire	24	14.4	8.2	16.9	10.1	56.1	0.0
New Jersey	71	312.0	238.7	161.3	62.3	802.0	5.5
New Mexico	45	41.9	23.5	25.2	35.8	171.2	0.0
New York	104	934.1	1,359.5	825.2	302.6	3,448.2	4,536.5
North Carolina	17	98.2	153.1	113.2	28.1	393.5	15.5
North Dakota	42	13.7	—	10.6	42.0	108.7	0.0
Ohio	144	397.6	389.7	327.8	158.8	1,335.3	32.0
Oklahoma	231	206.6	173.2	55.8	198.3	889.8	0.0
Oregon	8	138.5	124.4	41.3	53.3	360.6	1.5
Pennsylvania	184	432.1	757.4	257.4	419.3	1,905.8	149.2
Rhode Island	6	77.4	54.2	37.0	19.1	189.0	23.3
South Carolina	20	52.3	47.9	41.1	18.1	164.3	0.0
South Dakota	25	19.0	34.3	667.1	117.0	858.4	0.0
Tennessee	58	85.5	117.3	83.8	30.1	332.4	0.4
Texas	1,057	1,493.1	1,708.5	281.1	737.6	4,731.4	262.5
Utah	7	143.0	63.4	29.2	15.0	252.8	0.0
Vermont	12	15.2	16.2	6.6	4.9	44.6	0.0
Virginia	46	168.5	80.4	92.5	66.0	414.8	4.0
Washington	24	254.3	514.3	117.7	130.7	1,025.1	98.6
West Virginia	97	77.7	12.9	61.9	29.0	215.0	0.0
Wisconsin	118	96.2	107.1	35.3	88.1	397.0	[illegible]
Wyoming	59	24.2	—	9.7	83.1	178.8	[illegible]
Puerto Rico	1	0.0	—	0.0	0.0	0.0	[illegible]

*Reporting national banks

NOTE: Sum of Real estate, Commercial and industrial, Personal and All other past due loans and leases is less than the Total [illegible] nonaccrual loans are not reported by loan type by banks filing the abbreviated Report of Condition, and as a result are counted [illegible]
Dashes indicate amounts less than $500,000.

Average national banks' percent of loans past due at domestic offices, by assets

	Assets in millions of dollars									
	Less than $10	*$10 to $20*	*$20 to $25*	*$25 to $40*	*$40 to $100*	*$100 to $300*	*$300 to $900*	*$900 to $5,000*	*$5,000 or more*	*All national banks*
Real estate										
September 1984	2.1	3.4	3.5	3.6	3.3	2.8	3.4	4.0	4.5	3.2
December 1984	2.0	3.6	3.9	3.8	3.6	3.0	4.0	4.4	5.7	3.5
March 1985	2.3	3.8	4.0	4.0	3.7	3.1	4.0	4.2	5.0	3.6
June 1985	2.2	3.9	3.6	3.5	3.5	3.1	3.9	3.8	4.9	3.4
September 1985	2.1	3.6	3.7	3.6	3.4	3.1	4.0	4.1	5.0	3.4
December 1985	2.2	4.3	3.7	3.9	3.5	3.3	4.2	4.2	5.1	3.6
Commercial and industrial										
September 1984	NA	NA	NA	NA	NA	NA	4.9	5.1	5.3	4.8
December 1984	NA	NA	NA	NA	NA	NA	5.0	5.1	5.5	4.9
March 1985	NA	NA	NA	NA	NA	NA	5.1	5.0	5.4	4.9
June 1985	NA	NA	NA	NA	NA	NA	5.0	4.5	5.2	4.7
September 1985	NA	NA	NA	NA	NA	NA	5.0	4.7	4.8	4.7
December 1985	NA	NA	NA	NA	NA	NA	4.8	4.5	4.7	4.6
Personal										
September 1984	2.6	3.5	2.9	3.4	3.1	2.5	2.2	2.4	2.2	3.0
December 1984	2.8	3.8	3.5	3.6	3.2	2.7	2.4	2.7	2.4	3.2
March 1985	2.5	3.5	3.7	3.4	3.2	2.5	2.3	2.5	2.6	3.1
June 1985	2.6	3.4	3.3	3.3	2.9	2.3	2.3	2.4	2.4	2.9
September 1985	2.4	3.5	3.2	3.0	3.1	2.6	2.4	2.7	3.1	3.0
December 1985	2.9	4.0	3.4	3.3	3.3	2.9	2.5	3.0	3.2	3.3
All other										
September 1984	2.4	3.8	4.1	4.3	3.8	3.3	1.4	1.8	3.3	5.0
December 1984	2.6	4.2	4.5	4.5	4.1	3.5	2.0	2.2	3.4	3.8
March 1985	3.2	4.3	4.4	5.0	4.8	3.9	2.0	2.4	3.7	4.3
June 1985	2.8	4.3	4.0	4.2	4.2	3.5	2.1	2.0	3.3	3.8
September 1985	3.3	4.7	4.5	4.1	4.2	3.6	2.0	2.4	3.3	4.0
December 1985	3.6	5.1	4.7	4.6	4.5	3.7	1.6	2.2	2.8	4.2
Total loans										
September 1984	2.6	4.4	4.7	4.8	4.5	4.0	3.6	3.7	4.2	4.3
December 1984	2.7	5.0	5.2	5.3	4.9	4.3	4.0	3.9	4.5	4.7
March 1985	3.3	5.2	5.9	5.8	5.4	4.7	3.9	3.9	4.4	5.1
June 1985	3.4	5.2	5.1	5.3	5.1	4.5	3.9	3.6	4.2	4.8
September 1985	3.5	5.2	5.8	5.4	5.3	4.8	4.0	3.8	4.3	5.0
December 1985	4.2	5.9	5.7	5.7	5.4	4.8	4.0	3.9	4.2	5.3

See notes at end of tables.

Average national banks' percent of loans past due at foreign offices, by assets

	Assets in millions of dollars			
	$300 to $900	*$900 to $5,000*	*$5,000 or more*	*All national banks*
All foreign office loans				
September 1984	9.8	8.7	8.2	8.8
December 1984	11.3	7.6	7.8	8.2
March 1985	9.1	7.4	8.2	7.9
June 1985	9.8	7.7	7.4	8.0
December 1985	11.4	9.0	6.0	8.3

NOTES:

These figures include non-accrual and past due loan and lease financing receivables.

Past due loans—These items are (1) single payment notes 30 days or more past maturity; (2) single payment notes with interest due at specified intervals and demand notes on which interest is due and unpaid for 30 days or more; (3) amortizing real estate loans and closed-end monthly installment loans and lease financing receivables in arrears two or more monthly payments, or, if scheduled other than monthly, when one scheduled payment is due and unpaid for 30 days or more; (4) open-end credit accounts on which the customer has not made the minimum monthly payment for two or more billing cycles; and (5) unplanned overdrafts outstanding 30 days or more after origination.

Non-accrual loans—These items are (1) those maintained on a cash basis because of deterioration in the financial position of the borrower; and (2) those on which principal or interest has been in default for a period of 90 days or more unless the obligation is both well secured and in the process of collection, in which case it is considered merely past due.

Average banks' percent of loans past due—Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated.

Loan categories—The loan categories for this table correspond to those for the report of condition except for "Other loans." "Other loans" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans not included in the specified categories.

Data for prior periods, based on slightly different definitions, may be found in the *Quarterly Journal,* Volume 2, Number 1, pp. 229-232.

Beginning March 1984, past due commercial and industrial loans of banks with less than $300 million in assets have been combined with all other loans.

Office of the Comptroller of the Currency — Financial Statements December 31, 1985

Balance Sheets

	December 31 1985	December 31 1984
Assets		
Current assets:		
Cash	$ 888,951	$ 834,354
Receivables:		
Travel advances	950,694	1,942,427
Accounts receivable	782,923	1,426,117
Accrued interest	315,618	—
Total receivables	2,049,235	3,368,544
Investment securities	24,663,534	41,815,972
Prepaid expenses and other assets	1,189,108	824,144
Total current assets	28,790,828	46,843,014
Investment securities—long term	26,758,823	—
Other non-current assets	250,000	—
Fixed assets and leasehold improvements:		
Furniture, equipment and software	11,970,333	11,003,540
Leasehold improvements	11,188,409	9,017,839
	23,158,742	20,021,379
Less accumulated depreciation and amortization	10,040,157	8,367,401
Net fixed assets and leasehold improvements	13,188,585	11,653,978
Total assets	$68,918,236	$58,496,992
Liabilities and Comptroller's Equity		
Current liabilities:		
Accounts payable and accrued expenses	$12,116,912	$ 7,763,904
Accrued travel and salaries	3,776,086	3,450,781
Total current liabilities	15,892,998	11,214,685
Long-term liabilities:		
Accumulated annual leave	8,138,758	7,643,980
Unclaimed properties	—	141,245
Total liabilities	24,031,756	18,999,910
Comptroller's equity:		
Unrestricted	44,886,480	39,497,082
Total Comptroller's equity	44,886,480	39,497,082
Total liabilities and equity	$68,918,236	$58,496,992

See accompanying notes to financial statements.

Office of the Comptroller of the Currency — Financial Statements December 31, 1985

Statements of Revenue, Expenses and Changes in Comptroller's Equity

	Years ended December 31	
	1985	1984
Revenue:		
Semiannual assessments	$170,062,437	$145,190,618
Examinations and investigations	8,733,378	12,585,380
Investment income	7,163,483	7,359,821
Publication sales	604,998	593,890
Other	303,911	481,510
Total revenue	186,868,207	166,211,219
Expenses:		
Salaries	119,299,395	112,325,770
Travel	18,437,881	17,527,302
Relocation	2,632,059	3,736,886
Training	1,759,741	1,537,728
Conference expense	590,717	348,091
Office space costs	12,504,776	9,873,976
Office equipment and furniture	4,752,751	2,496,372
Office supplies, materials & services	1,357,527	1,166,206
Printing and copier	1,031,391	1,132,445
Automated services	13,732,096	7,700,148
Communications	3,510,125	3,470,173
Outside services	1,870,350	1,818,120
Total expenses	181,478,809	163,133,217
Excess of revenue over expenses	5,389,398	3,078,002
Comptroller's equity at beginning of year	39,497,082	36,419,080
Comptroller's equity at end of year	$ 44,886,480	$ 39,497,082

See accompanying notes to financial statements.

Office of the Comptroller of the Currency — Financial Statements
December 31, 1985

Statements of Changes in Financial Position

	Years ended December 31	
	1985	1984
Financial resources were provided by:		
Operations:		
Excess of revenue over expenses	$ 5,389,398	$ 3,078,002
Charges not affecting working capital:		
Additions to accumulated annual leave	1,348,543	1,300,356
Depreciation and amortization	1,935,301	1,592,735
Income from sale of closed receivership fund securities	(88,685)	—
Amortization of premium and discount on long-term Government obligations, net	(28,823)	—
Net loss on sale of fixed assets	10,890	7,520
Working capital provided by operations	8,566,624	5,978,613
Long-term U.S. Government obligations sold	—	22,965,509
Proceeds from sale of fixed assets	1,375	873
Proceeds from closed receivership funds dividends	3,305	3,307
Total	8,571,304	28,948,302
Financial resources were used for:		
Purchase of fixed assets	3,177,882	4,193,168
Payment of accrued leave	853,765	876,161
Purchase of computer software	234,291	25,000
Purchase of long-term securities	26,730,000	—
Payment of closed receivership fund claims	51,233	8,007
Transfer of closed receivership fund liability to current liability	4,632	—
Transfer of short-term rent receivable to long-term receivable	250,000	—
	31,301,803	5,102,336
Increase (decrease) in working capital	($22,730,499)	$ 23,845,966
Analysis of changes in working capital:		
Increase (decrease) in current assets:		
Cash	54,597	$ 367,514
Investment securities	(17,152,438)	22,816,717
Accrued interest	315,618	(1,063,052)
Accounts receivable	(643,194)	501,223
Travel advances	(991,733)	(72,488)
Prepaid expenses and other assets	364,964	101,656
	(18,052,186)	22,651,570
(Increase) decrease in current liabilities:		
Accounts payable and accrued expenses	(4,353,008)	1,287,463
Accrued travel and salaries	(325,305)	(93,067)
	(4,678,313)	1,194,396
Increase (decrease) in working capital	$(22,730,499)	$ 23,845,966

See accompanying notes to financial statements.

Notes to Financial Statements, December 31, 1985 and 1984

Note 1—Organization

The Office of the Comptroller of the Currency (Comptroller's Office) was created by an Act of Congress for the purpose of establishing and regulating a national banking system. The National Currency Act of 1863, rewritten and reenacted as The National Banking Act of 1864, created the Comptroller's Office and provided for its supervisory functions and the chartering of banks.

No funds derived from taxes or federal appropriations are allocated to or used by the Comptroller's Office in any of its operations. The revenue of the Comptroller's Office is derived principally from assessments and fees paid by the national banks and income on investments in U.S. Government obligations. The Comptroller's Office is exempt from federal and state income taxes.

Note 2—Significant Accounting Policies

The accounting policies of the Comptroller of the Currency conform to generally accepted accounting principles. The financial statements are prepared on the accrual basis of accounting.

Investment securities are U.S. Treasury obligations stated at amortized cost which approximates market value. Premiums and discounts on investment securities are amortized on a straight-line basis to maturity.

Furniture and equipment are capitalized at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are capitalized at cost less accumulated amortization computed over the terms of the related leases (including renewal options) or the estimated useful lives, whichever is shorter. Expenditures for maintenance and repairs are charged to earnings as incurred.

Unclaimed properties represent amounts held for the benefit of the owners of properties recovered from the safe deposit boxes of closed national banks.

Note 3—Investment Securities

Following is a summary of investment securities at December 31:

	1985			1984		
Description	Amortized Cost	Market	Par Value	Amortized Cost	Market	Par Value
U.S. Treasury bills, due through December 31, 1986	$24,663,534	$24,666,178	$25,385,000	$ —	$ —	$ —
U.S. Treasury bills, due through December 31, 1985	—	—	—	41,815,972	41,858,421	42,155,000
Total short-term investment securities	24,663,534	24,666,178	25,385,000	41,815,972	41,858,421	42,155,000
U.S. Treasury notes due May 15, 1989 9.25%	26,758,823	27,766,800	27,000,000	—	—	—
Total long-term investment securities	26,758,823	27,766,800	27,000,000	—	—	—
Total investments	$51,422,357	$52,432,978	$52,385,000	$41,815,972	$41,858,421	$42,155,000

Note 4—Commitments

The Comptroller's Office occupies office space in Washington, D.C. under a lease agreement which provided for an initial five-year term with five consecutive five-year renewal options. During 1984, the second of these options, expiring in 1989, was exercised. In addition, the district and field offices lease space under agreements which expire at various dates through 2000. Minimum rental commitments under leases in effect at December 31, 1985 are as follows:

1986	$ 9,220,876
1987	8,224,585
1988	7,961,190
1989	5,254,921
1990	3,047,642
1991 and after	17,972,631
	$51,681,845

Certain of the leases provide that annual rentals may be adjusted to provide for increases in taxes and other related expenses. Total rental expense under operating leases was $10,110,000 and $7,821,000 for the years ended December 31, 1985 and 1984, respectively.

The Comptroller's Office contributes to the Civil Service retirement plan for the benefit of all its eligible employees. Contributions aggregated $7,090,587 and $6,727,866 in 1985 and 1984, respectively. The plan is participatory, with 7 percent of salary being contributed by each party. Additionally, the Comptroller's Office contributes Social Security and Medicare benefits for all eligible employees. The estimated costs of such benefits are accrued over the working lives of those employees expected to qualify for such benefits. These costs are funded annually and were $1,771,000 for 1985.

The accompanying balance sheets include a liability for accumulated annual leave. Employees accumulate leave to specified limits. If not taken prior thereto such amounts are paid at retirement or termination.

Note 5—Contingencies

Various banks in the District of Columbia have deposited securities with the Comptroller's Office as collateral for those banks entering into and administering trust activities. These securities, having a par or stated value of $21,172,941, are not assets of the Comptroller's Office and accordingly, are not included in the accompanying financial statments.

The Comptroller's Office is a defendant, together with other bank supervisory agencies and other persons, in litigation related to the closing of certain national banks. In the opinion of the Comptroller's legal staff, the Comptroller's Office will be able to defend successfully against these complaints and no material liability is expected to result therefrom.

Opinion of Independent Accountant

March 10, 1986

To the Comptroller of the Currency

We have examined the balance sheet of the Office of the Comptroller of the Currency as of December 31, 1985 and the related statements of revenue, expenses and changes in Comptroller's equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Office of the Comptroller of the Currency for the year ended December 31, 1984 were examined by other auditors, whose report dated March 15, 1985 expressed an unqualified opinion on those statements.

In our opinion, the 1985 financial statements referred to above present fairly the financial position of the Office of the Comptroller of the Currency at December 31, 1985, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

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